

BEFORE THE INDIANA GAMING COMMISSION

PUBLIC HEARING

TRANSCRIPT OF PROCEEDINGS

DATE: November 17, 1995

PLACE: Indiana Government Center Auditorium
302 West Washington Street
Indianapolis, Indiana

REPORTED BY: Deanne S. Hutson, Notary Public

MEMBERS OF THE COMMISSION:

Alan I. Klineman, Chairman
Thomas F. Milcarek
Robert W. Swan
David E. Ross, Jr., M.D.
Donald R. Vowels
Ann Marie Bochnowski
Robert W. Sundwick

ALSO PRESENT

John J. Thar, Executive Director,
and Members of the Staff

SHIREY REPORTING SERVICE, INC.
201 North Illinois Street, Suite 300
Indianapolis, Indiana 46204
(317) 237-3350

INDEX

	<u>Page</u>
Resumption of Questioning of the City of East Chicago and Showboat Marina Partnership	3
Licensing Discussion Concerning the City of Hammond	122

1 CHAIRMAN KLINEMAN: If we could come back
2 to order. As you heard before we adjourned, the
3 result of the restraining order being dissolved,
4 we are in a position now to continue the
5 questioning of the City of East Chicago. Our
6 format, I guess, we adopted up there before we
7 got stopped before lunch that day was we were
8 kind of questioning both interchangeably almost.
9 I guess is there anything that anyone would wish
10 to say before we get started on the questioning?

11 MR. TOM BONNER: Good morning, Chairman
12 and Commissioners.

13 CHAIRMAN KLINEMAN: We need everyone to
14 state their name almost every time we speak so
15 the court reporter will --

16 MR. TOM BONNER: We'll accommodate you.
17 Chairman and Commissioners, my name is Tom
18 Bonner. I am president and CEO of Showboat
19 Indiana and Showboat Marina Partnership. I will
20 be acting as the moderator during the Q & A
21 session. Mr. Thar had asked that I make a brief
22 statement to the Commission before we start, and
23 I guess I sum it up what a difference a month

1 makes. There is no pending PRO. You have
2 already been advised that I will be leaving the
3 Showboat organization. I will be assuming the
4 lead gaming development responsibilities for the
5 Barden organization focusing initially on Mr.
6 Barden's development in Gary. I will remain
7 available to this Commission and to Showboat to
8 participate in the conclusion of these
9 proceedings, as many different sessions as there
10 may be.

11 Today's a pivotal day for Showboat
12 Marina Partnership. I'm reminded of a pivotal
13 day that occurred eight and a half years ago for
14 Showboat when we stood before the New Jersey
15 Casino Control Commission in pursuit of our
16 initial gaming license for Atlantic City. At the
17 conclusion of almost a month of hearings in New
18 Jersey Commissioner Zites in New Jersey made the
19 statement that this is a good company, these are
20 good people, they deserve to be licensed. As I
21 wind down my duties for Showboat and I stand here
22 today and take a little bit of a step back and
23 look from a distance, I'd like to offer those

1 same words to this Commission. The companies
2 that comprise Showboat Marina Partnership are
3 good companies, but more importantly, the people
4 who make them up are good people. These people
5 have made a positive difference in my life and in
6 my association with Showboat over the years and
7 with Waterfront. I'm confident that these people
8 can make a positive difference for the State of
9 Indiana and the City of East Chicago, and in my
10 opinion they clearly deserve to be licensed.
11 We're prepared to proceed now with answers to
12 your questions.

13 CHAIRMAN KLINEMAN: I would -- go ahead,
14 Ann.

15 COMMISSIONER BOCHNOWSKI: It doesn't
16 really make any difference one way or another.

17 CHAIRMAN KLINEMAN: Thank you, Mr.
18 Bonner. We'll proceed with the questions.

19 COMMISSIONER BOCHNOWSKI: I have a
20 couple of questions as long as you're standing up
21 there now. I need to go back to another page
22 here, but regarding your financial ability here.
23 There was some indication -- and I don't have the

1 page here, but some indication that -- here it
2 is. That intense competition in Las Vegas should
3 result -- was expected to result in a decline in
4 earnings and value line indicated, that due to
5 competition and renovation activity your property
6 in Las Vegas would be hard pressed to break even
7 in 1995. How does this impact on you? You have
8 an \$18 million renovation program going on there.
9 I'm just wondering how this impacts on the East
10 Chicago situation.

11 MR. TOM BONNER: Commissioner, we have a
12 host of representatives from the Showboat
13 corporate offices and senior management here.
14 I'd like to call upon Mark Miller who is
15 Executive Vice-President of Operations for
16 Showboat to address that.

17 MR. MARK MILLER: Thank you, Tom. I'm
18 Mark Miller, Executive Vice-President of
19 Operations for Showboat, Inc. I have
20 responsibilities for the Atlantic City property,
21 the Las Vegas property and for the East Chicago
22 project. The Las Vegas property has been a
23 strong competitor in Las Vegas for many many

1 years. It's our first property built in 1954 and
2 over the years the property has been built onto
3 and has remained very competitive.

4 In 1995 a couple of things happened.
5 First is there's been the introduction of
6 significant new competition in our marketplace,
7 primarily in Bolder Highway and, in addition, our
8 property has certain components of it that have
9 aged, primarily those that were originally built
10 in 1954, and needed to be completely and entirely
11 replaced right down to concrete slab. So earlier
12 this year we began that project and we basically
13 ripped out the middle part of our property right
14 down to the concrete slab and are reconstructing
15 about 40 percent of the casino. So when value
16 line says it will be difficult for us to break
17 even, they are correct, but that project is now
18 almost complete. We're about 30 days from
19 re-opening the casino. We expect to be a strong
20 competitor in Las Vegas coming out of that.

21 In terms of financially and how it might
22 affect the East Chicago project, there's
23 absolutely no effect whatsoever. The \$18 million

1 that's -- the actually \$24 million in total
2 capital expenditures for the Las Vegas property
3 this year have been set aside and dedicated for
4 that purpose. We have the money available.
5 We're not going into debt to do that project and
6 we have the money available to do East Chicago
7 and the other projects we're pursuing as well, so
8 there would be absolutely no impact on our
9 ability to finance this project whatsoever.

10 COMMISSIONER BOCHNOWSKI: You consider
11 yourself still a strong viable company?

12 MR. MARK MILLER: Absolutely. This is
13 just one of the processes that has to be done
14 occasionally when you have properties.

15 COMMISSIONER BOCHNOWSKI: Thank you.
16 That was one of my questions. Does anybody have
17 anything further on the financial portion? I
18 kind of -- this is jumping to a completely
19 different area so if somebody wants to follow up.
20 This is very difficult. I felt like we had a
21 really good flow going before and to start back
22 over again it's just very very difficult. There
23 are a number of foundations that you've proposed

1 funding some projects. There was the housing --
2 a couple of housing projects. You've got the
3 East Chicago Community Foundation, Twin City
4 Education Foundation. Here is my concern -- and
5 you'll probably need to talk about this too.
6 Here is my concern. Who is going to run these
7 foundations? Who is going to get this money? Is
8 there any guarantee that the right people are
9 going to be getting this money or are we going to
10 have big administration overload? Are we going
11 to have people who are politically connected
12 running these foundations and this is just one
13 more way to funnel money to people?

14 MR. MARK MILLER: I'll ask Mr. Artis to
15 address that, but just generally we took care
16 when crafting the structure of the foundations to
17 ensure that they would be administered by an
18 independent board of directors which would direct
19 the investment of the contributions made by
20 Showboat Marina Partnership in a way that truly
21 benefits the community pursuant to the bylaws of
22 those foundations. Just as an example, there's a
23 15-member board on one and I believe a seven- or

1 nine-member board on another.

2 COMMISSIONER BOCHNOWSKI: Who are
3 those -- who makes up the board?

4 MR. TOM BONNER: The agreement with the
5 city specifically identifies if not individuals,
6 boards or bodies from which these members will be
7 directed. Mr. Artis can give you more inform-
8 ation. I just want to conclude there's only one
9 representative appointed by Showboat Marina on
10 each of those boards.

11 COMMISSIONER BOCHNOWSKI: That doesn't
12 worry me.

13 MR. TOM BONNER: So there is not any
14 opportunity for a majority control and that
15 carries through the intent that these be truly
16 independent boards. As we said many times in our
17 community meetings, our role with respect to
18 those foundations is largely as simple, yet as
19 important as delivering the check.

20 COMMISSIONER BOCHNOWSKI: Actually
21 Showboat's involvement isn't really as much of a
22 concern to me as making sure that the administra-
23 tion costs are so much that the real people who

1 I'd like to see benefit benefit.

2 MR. TOM BONNER: I like Mr. Artis to
3 give you some more information about that.

4 COMMISSIONER BOCHNOWSKI: That'd be
5 great.

6 MR. JOHN ARTIS: Commissioner, those
7 concerns were raised in our--

8 CHAIRMAN KLINEMAN: For the record, you
9 need --

10 MR. JOHN ARTIS: My name is John Artis
11 and I serve as the City's Director of
12 Redevelopment. I'd like to indicate those
13 concerns were raised in our task force process by
14 residents as well, and in an effort to ensure
15 that the ownership, if you will, of those two
16 foundations would be community based, the
17 arrangement for appointments to that board are,
18 basically as Tom's indicated, from the Education
19 Foundation will be roughly seven members that
20 will reside on that board, two of which would be
21 appointed by the largest employers of the City of
22 East Chicago. The mayor will have one
23 appointment, the school board would have one

1 appointment, and as I remember, the Education
2 Foundation will also have an appointment on that
3 particular board as well as Showboat.

4 One of the other requirements or
5 stipulations that was built into the agreement
6 with Showboat was that a qualified proven
7 executive director would be hired to administer
8 the program or the efforts of that foundation.
9 As relates to the Twin City Foundation, that
10 board will consist of roughly 15 to 21 members
11 who will again be appointed -- one appointment
12 would be made by the mayor, one appointment by
13 the school board, two representatives from the
14 largest employers of the City of East Chicago and
15 the balance principally coming from organizations
16 that were participants in the Community
17 Development Committee process in our task force
18 effort. Those appointments would be given to
19 organizations, not necessarily individuals, and
20 it was our intent to identify those organizations
21 that have provided some civic and/or social
22 benefits to the City of East Chicago in that
23 fabric of our community, organizations such as

1 the Knights of Columbus, the Catholic Family
2 Services, Indiana Black Expo chapter that's
3 located in the City of East Chicago, NAACP.
4 Those kinds of organizations would be invited to
5 identify a representative who would serve on that
6 board. That kind of an arrangement would be
7 made -- that is, that board would be made up of
8 those types of persons who would administer those
9 foundation and, likewise, this foundation would
10 be required to hire a competent qualified person
11 who has a proven track record in managing these
12 kind of processes.

13 COMMISSIONER BOCHNOWSKI: Will the board
14 members be paid?

15 MR. JOHN ARTIS: At this particular
16 point in time the final details, minute details,
17 have not been worked out, but it's our under-
18 standing at this time this would be a volunteer
19 board.

20 COMMISSIONER BOCHNOWSKI: I think that
21 would be better.

22 MR. JOHN ARTIS: Members that serve on
23 the board would be representing organizations

1 that would be coming before that group in many
2 instances for assistance in funding programs and
3 projects that they're associated with, but at
4 this point in time we're envisioning that that
5 board would be a non-paying board in both
6 instances.

7 COMMISSIONER BOCHNOWSKI: Then would
8 there be some kind of reporting to somebody so
9 that they could tell how much money had come in,
10 how much money had gone out?

11 MR. JOHN ARTIS: The boards again would
12 be required to file the necessary financial
13 reporting documents that are required by state
14 law. The boards will also provide annual reports
15 to the oversight committee which will be an
16 ongoing committee that initiated the task force
17 process in the City of East Chicago, so there
18 would be an annual review on that part of that
19 entity as it relates to the project performance,
20 if you will, for both foundations.

21 CHAIRMAN KLINEMAN: I presume this to be
22 a charitable qualified entity or Showboat
23 wouldn't be interested in making contributions to

1 it. Isn't that correct?

2 MR. JOHN ARTIS: Both entities will be
3 identified as 501C3 not-for-profit corporations.

4 CHAIRMAN KLINEMAN: They therefore would
5 be required to prepare and file with the Internal
6 Revenue Service papers?

7 MR. JOHN ARTIS: Absolutely.

8 CHAIRMAN KLINEMAN: Then is there any
9 provision for publically reporting, say by a
10 newspaper ad, the receipts and the disbursements
11 and to indicate the cost of administration which
12 is one of the questions the vice-chairman raises?

13 MR. JOHN ARTIS: We anticipate that the
14 meetings that will be held by both foundations
15 would be public meetings, thereby meeting
16 necessary open-door requirements, and that annual
17 budgets would be published for both entities and
18 those budgets will actually identify the
19 expenditures, the type of projects that are being
20 funded. It would also prior to operation be an
21 opportunity for the boards to -- foundations to
22 specifically identify what their internal
23 operations will be in terms of criteria for

1 consideration for funding. So those kinds of
2 things will in fact be made public and on a
3 regular routine basis those meetings we're
4 anticipating will be open to the general public
5 and any actions taken on the part of the
6 foundation will in fact be made public by news
7 media and radio.

8 COMMISSIONER SUNDWICK: Who in fact if
9 you have a board -- maybe I was reading something
10 else and I missed something. You have a board.
11 That board reports to an oversight committee?

12 MR. JOHN ARTIS: The board will provide
13 an annual report to an oversight committee. It
14 is the charge of the oversight committee, as I
15 indicated in my presentation to you back on
16 October 19th, to ensure that those priorities
17 that were established and the efforts by the task
18 force which was the strategy for the future, the
19 document I presented to you at that particular
20 hearing. There are a number of priorities, a
21 number of projects that are identified in that
22 process. The task force, the oversight committee
23 of the task force will be charged with the

1 responsibility of ensuring that those particular
2 projects and priorities are in fact addressed
3 either by the appropriate entity, whether it be
4 the two foundations or some other entity
5 associated with the city to carry out that
6 function.

7 COMMISSIONER SUNDWICK: So really it
8 ends up being the city oversight of these boards?

9 MR. JOHN ARTIS: No, the oversight
10 committee is also a committee established by the
11 mayor and it's represented by twelve members.
12 There are representatives on the oversight
13 committee from the two largest employers, Inland
14 Steel and LTV, the Chamber of Commerce,
15 representative from the school board. There are
16 some city representations on that particular
17 board, but generally it's a board that's made up
18 of a cross-section of the community.

19 COMMISSIONER SWAN: Could we just follow
20 up on that, Mr. Artis. I was reading my notes.
21 There was another entity involved called East
22 Chicago Second Century, Inc., I think. I didn't
23 have very accurate notes about who the partici-

1 pants would be in that entity, that that is a
2 for-profit entity, I think, according to my
3 notes. Could you elaborate on that?

4 MR. JOHN ARTIS: At this time that's an
5 entity that's being funded by Showboat.

6 MR. TOM BONNER: Commissioner, Mr.
7 Pannos will address that.

8 MR. PANNOS: I will give you an over --

9 CHAIRMAN KLINEMAN: Mr. Pannos, your
10 name.

11 MR. MIKE PANNOS: My name is Michael
12 Pannos. I'll give you an overall view of the
13 East Chicago Second Century, but I'd also like a
14 little more indepth explanation of how that
15 was -- how that came into being by Mike Higbee
16 who helped us develop the strategy to put the
17 most dollars back into the community and get the
18 most bang for the buck, as it were. East Chicago
19 Second Century was set up a for-profit entity to
20 allow us to partner with not only the community
21 development foundations, but with other entities
22 within that community. There has not been any
23 significant housing activity nor any new retail

1 activity in this community in quite a long time,
2 and it was felt by the experts that we hired that
3 the process of combining a for-profit entity
4 which would have a positive cash flow would allow
5 us to highly leverage those dollars in addition
6 with these other partners to create projects that
7 have not happened. We targeted in the first
8 instance the two projects. First was the
9 Washington High Schoole site where Washington
10 High School sat on Columbus Drive for many many
11 years. We have undertaken preliminary design
12 work and I believe it was in your booklet for a
13 townhome project. There is a drastic need for
14 new housing within the community. And also the
15 other thing we're doing with the East Chicago
16 Second Century was developing and putting a
17 retail project on Michigan Avenue. Michigan
18 Avenue used to be the retail heart of Indiana
19 Harbor and has fallen on rather rough times. We
20 are parking our employees on that side of East
21 Chicago and trying to recreate some of the
22 activity on that area. That is done with East
23 Chicago Second Century.

1 In addition, we anticipate other
2 partners that we've spoken to over the last
3 couple years that have expressed interest in both
4 projects, both in the housing side and retail
5 side. That for-profit entity is controlled by
6 the partners. We anticipate that it will be
7 managed by real estate professionals. One of the
8 things when we set up the Waterfront side of this
9 equation was to bring in people who are
10 experienced in doing it. As I said in our first
11 portion of our hearing, I think we have two of
12 the very best in terms of this kind of develop-
13 ment. George Novogroder has done a substantial
14 amount of this work in Indiana in terms of
15 building housing and retail centers. Nikos
16 Kefalidis has done the same in terms of
17 rehabilitated housing and new and retail and new
18 housing in New York City as well as commercial
19 development here in Indiana. These two
20 individuals will be the principals that will
21 drive this entity. I think it is somewhat of a
22 misnomer to think, however, that this is going to
23 drive substantial dollars in terms of profit.

1 These are not exactly low-risk ventures. It's
2 one of the reasons why nobody has done it in East
3 Chicago for a long time. What we tried to do was
4 create something different in terms of making
5 this work with being able to partner with a lot
6 of people to create and make things happen. Our
7 experts told us that this was one way of doing it
8 by having an entity with a positive cash flow
9 that would be able to do this.

10 If you'd like any further information on
11 that I'd be glad to bring Mr. Higbee up who has
12 had some proven track record with these kinds of
13 entities.

14 COMMISSIONER SWAN: Let me follow up,
15 please. You said it would be controlled by the
16 partners. Assuming the Waterfront partners?

17 MR. MIKE PANNOS: It's owned by the
18 partners, yes, and controlled -- one of the
19 things that we also talked about was gaming
20 companies are not in the real estate development
21 business and what we tried to do was set up
22 something unique so that we as a partnership
23 could make things happen in this community. Our

1 side of this equation is they're running that
2 boat. That's their expertise. They are going to
3 generate the revenues to be able to make all
4 these things happen. That's their expertise.
5 Our part of that equation is we will make sure
6 that East Chicago has a chance to get rebuilt and
7 that this opportunity is not lost. I think we
8 bring that expertise to the table and they bring
9 the gaming expertise together.

10 COMMISSIONER SWAN: Differentiate for me,
11 please, why this entity is necessarily set up as
12 a for-profit entity versus using the community
13 foundation or something like that for the same
14 development. I don't understand the mechanics
15 maybe of this.

16 MR. MIKE PANNOS: The mechanics were
17 this. It was our belief and the advice we got
18 that if we establish a for-profit entity that
19 we'd be able to leverage dollars with lending
20 institutions and would be able to partner the
21 not-for-profits. Mike, maybe you can help out in
22 this, but it was believed that our leverage
23 dollars would go substantially farther in making

1 this happen. If there was an actual for-profit
2 entity that could take on that risk and partner
3 with these other groups. Sometimes not-for-
4 profits just don't have the resources to be able
5 to do that or they eat up all their resources to
6 do one or two projects. Mike.

7 MR. MIKE HIGBEE: Thank you. Mike Higbee
8 with Development Concepts. Just to add a few
9 points to what Mr. Pannos has already given you.
10 It was our recommendation that if indeed the
11 Showboat Marina Partnership was to be serious
12 about making significant new development occur in
13 East Chicago over a multi-year period that they
14 had to first have the capacity to get that job
15 done, and while you do have some city expertise
16 that works on this issue each and every day, they
17 do so with limited funds and limited resources.
18 It was our sense after evaluating the resources
19 that would be made available through this new
20 investment in East Chicago that the job that was
21 before this group was to leverage the dollars
22 that would be generated by the boat and then
23 increase the impact that those dollars would have

1 in the community. I think probably many of you
2 are familiar with not-for-profits and the good
3 work they do throughout the state, throughout the
4 country, community development corporations.
5 This is really a movement that's been in
6 existence now for about twenty years. But
7 experience would tell you that they've had to
8 partner with developers and development companies
9 in order to have the kind of long-lasting impact,
10 sustainable impact that is necessary. For-
11 profits are very good at raising state dollars,
12 federal grants, foundation dollars. For-profit
13 corporations are excellent at going out into the
14 community and raising debt and equity investment.
15 It was felt that with a for-profit development
16 company that could develop relationships with the
17 banks and with investors and bring those dollars
18 back into East Chicago and generate substantial
19 investment that the mission and the vision that
20 this group has for really increasing in a
21 significant way physical development within East
22 Chicago that that was much more likely to happen
23 as opposed to relying on solely not-for-profit

1 development corporations.

2 MR. JOHN ARTIS: If I might. John
3 Artis, City of East Chicago, Property
4 Re-development. If I might add from the city's
5 perspective why this particular format is
6 advantageous to us. Two additional factors.
7 First of all, we have, for all intents and
8 purposes, a captive for-profit entity because the
9 requirement is that they do projects solely in
10 the City of East Chicago with those funds that
11 are in fact set aside annually to capitalize the
12 Second Century effort. So we have a captive
13 for-profit entity that has a proven track record
14 in terms of development, whether it be resi-
15 dential, commercial and industrial development at
16 our disposal. Secondly, it is a for-profit. In
17 order to benefit from this for-profit arrangement
18 profits have to be generated. Therefore, we are
19 anticipating because of this arrangement the
20 partnerships that will be generated not only
21 through the City of East Chicago and the various
22 community development organizations, social and
23 civic organizations in the City of East Chicago,

1 would all benefit from this effort in the sense
2 that Second Century in order to make that profit
3 must look at viable projects and programs in the
4 East Chicago for funding purposes.

5 The last thing I would like to point out
6 is we're not viewing Second Century as a typical
7 development firm. We're viewing Second Century
8 as a firm that will look at various projects in
9 the City of East Chicago that may in fact require
10 an investment that will require a longer return
11 on that investment, what may be a project that
12 might not typically be readily embraced by a
13 typical developer in our city. With that kind of
14 a mindset we think that we can begin to make some
15 real development changes in our community and we
16 think that this is a clear benefit to the City of
17 East Chicago.

18 Lastly, I'd like to indicate that this
19 is another component of our economic development
20 plan to ensure that benefits the city would reap
21 from the existence of a gaming operator in the
22 City of East Chicago would be spread throughout
23 the entire community as opposed to concentrating

1 that development effort and that benefit in the
2 marina area solely. So this does that as well.

3 COMMISSIONER SWAN: Follow up, please. I
4 don't mean to beat on this too much, but the
5 income that's going to be derived from Showboat
6 is three quarters of one percent. I had a note
7 said that 1.8 in the first year. It's a million
8 or half million or two million. My question.
9 When the money comes into this -- actually it's a
10 corporation, I guess.

11 MR. MIKE PANNOS: Yes.

12 COMMISSIONER SWAN: That would make
13 income as to that corporation and be virtually
14 taxable income by itself. I would think that
15 having a significant tax liability dollars you're
16 going to take are investing into long-term
17 projects and I don't see how you're going to get
18 any on any current basis. How is that going to
19 work?

20 MR. MIKE PANNOS: In terms of the
21 taxable situation?

22 COMMISSIONER SWAN: Yes.

23 MR. MIKE PANNOS: One of our beliefs was

1 we could structure many of these developments to
2 lessen that tax burden. Our goal was not
3 necessarily here to create a great for-profit
4 real estate development company. Our goal was to
5 try and further leverage these dollars. Our
6 understanding was that there would be some tax
7 implications, but as we developed these various
8 partnerships with both not-for-profits and other
9 for-profit entities that that burden would be
10 more than covered. I would probably have to get
11 our tax counsel up here to discuss it further
12 with you. It was my understanding though you're
13 right, it is an Indiana corporation and there
14 will be some tax implication to that.

15 COMMISSIONER SWAN: My concern obviously
16 was with those tax implications you'd be going
17 out in dollars to pay taxes instead of putting
18 them into projects if it were not-for-profit --
19 and I understand what Mr. Higbee was saying, but
20 as a tax person it does kind of bother me.

21 MR. MIKE PANNOS: I understand. When
22 Mike ran the numbers for us in terms of the
23 leveraging implications and what was left at the

1 end of the day to be able to leverage those
2 dollars, it was believed that the for-profit
3 entity in conjunction with the not-for-profits
4 gave us the highest dollar level in being able to
5 do that. Because the leveraging for the
6 for-profit entity is significantly higher than
7 the not-for-profit and even with the tax
8 implications we would be left with more going
9 into the community at that level. I don't know
10 if that helps.

11 COMMISSIONER SWAN: It does. There
12 wasn't any discussion of being an S corporation
13 in this entity?

14 MR. MIKE PANNOS: There was and --

15 COMMISSIONER SWAN: That would bother me.

16 MR. MIKE PANNOS: It is not filed. My
17 understanding it's not filed as an S corporation.

18 COMMISSIONER SWAN: Bother me from the
19 sense that shareholders in an S corporation are
20 going to be taxed on the profits and you have to
21 get distributions out to these shareholders.

22 MR. MIKE PANNOS: I think that's why we
23 didn't do an S corp. The purpose of this was to

1 maximize the development in the City of East
2 Chicago. It was not to distribute to us.

3 COMMISSIONER SWAN: Thank you.

4 COMMISSIONER ROSS: Mr. Pannos, Can I
5 just review the organization so I get it straight
6 in my mind. Second Century is the partnership
7 with Showboat?

8 MR. MIKE PANNOS: It was --

9 COMMISSIONER ROSS: Is that the name of
10 that partnership?

11 MR. MIKE PANNOS: Waterfront and Showboat
12 Inc. are the two partners in Showboat Marina
13 Partnership. East Chicago Second Century was a
14 separate corporation from that.

15 COMMISSIONER ROSS: Do the people that
16 belong to Second Century, are any of those also
17 members of Waterfront?

18 MR. MIKE PANNOS: Yes.

19 COMMISSIONER ROSS: Are they the same
20 people?

21 MR. MIKE PANNOS: Yes, they are. We were
22 not creating any new people on any other entity
23 that is involved in this project so that you have

1 new players that come into the involvement in
2 this project. It's the same people.

3 COMMISSIONER ROSS: So these are the same
4 people. Now, Second Century has hired
5 Developmental Concepts to do the development?

6 MR. MIKE PANNOS: No, Mike Higbee was
7 hired by both -- by really by Showboat Marina
8 Partnership to help us construct the very best
9 economic development package for the City of East
10 Chicago. One of the things that Mike advised us
11 to do was to set up these various entities to
12 help us develop mortgage programs, to help us
13 develop for-profit and not-for-profit foundations
14 so that those dollars could have the greatest
15 impact in that community. So he really works for
16 Showboat Marina Partnership, helped us develop
17 the economic development program along with the
18 city with Mr. Artis' task force. What Mike took
19 was the strategy for the future that was given
20 basically to us by the community by -- John had
21 about 80 members from every walk of life in that
22 community. We had a series of hearings that
23 developed projects by which the city would like

1 those things carried out, whether it's a housing
2 project, whether it's a police station, whether
3 it's a graffiti machine, whether it's any number
4 of -- wellness program. Those things were
5 identified. What Mike Higbee was supposed to do
6 and what he's done in other communities in the
7 state was to set up vehicles by which we could
8 take the revenues and the commitments from the
9 Showboat Marina Partnership and put those in the
10 very best possible light so that they could have
11 maximum benefit. So he will not be the developer
12 per se. I would imagine Mike Higbee -- we have
13 talked and asked Mike that he remain in this
14 process to help us further leverage those dollars
15 so that this thing is run properly and we get the
16 maximum benefit out of this. So he will have an
17 ongoing role. I anticipate that if we create --
18 if we do this properly there will be a number of
19 projects, some of which East Chicago Second
20 Century will be the lead, some of which the East
21 Chicago Foundation might be the lead, some of
22 which a local bank might be the lead, some of
23 which development companies might be the lead.

1 We've had discussions with banks, we've had
2 discussions with developing companies about these
3 kinds of projects. So I think what we tried to
4 do was through Mike's expertise create the best
5 possible way to get this done and Mike will be
6 involved as an ongoing.

7 COMMISSIONER ROSS: Let me go back. How
8 much money does Second Century have, how much
9 capital?

10 MR. MIKE PANNOS: It has no capital.
11 East Chicago Second Century is funded out of the
12 revenues.

13 COMMISSIONER ROSS: So it would be funded
14 out of revenues from the boat, from the casino?

15 MR. MIKE PANNOS: Yes.

16 COMMISSIONER ROSS: Now, what perks do
17 you get from the city for setting this up? Does
18 the city give you like a license to be the main
19 developer?

20 MR. MIKE PANNOS: I don't know that we're
21 the main developer except that East Chicago
22 Second Century would wind up being a developer in
23 a community that has dollars to be able to make

1 developments happen. As John Artis said, there
2 are restrictions in our agreement with the city
3 that says that we have to get signoff by the city
4 on our projects and that all those dollars must
5 be spent on developments in East Chicago, which
6 is pretty restrictive when you're talking about a
7 community the size of East Chicago and with the
8 challenges. Those dollars, if we do them with
9 the expertise of Mike and identify these
10 projects, the dollars go a long way, but if we
11 don't, you can build one or two projects and not
12 get very far. The city gives us -- they don't
13 give us a license or anything. It's just another
14 part of the package to try and maximize the
15 dollars to get development.

16 COMMISSIONER SWAN: You found no projects
17 to invest in; the funds would be in that
18 corporation which are basically controlled by the
19 Waterfront partners themselves?

20 MR. MIKE PANNOS: It is not our intention
21 to distribute those funds.

22 COMMISSIONER SWAN: I understand, but
23 you're not restricted from doing that either; is

1 that correct?

2 MR. MIKE PANNOS: I don't know if there
3 is anything in the provisions with the city
4 that -- you may be able to infer certainly in our
5 agreement with the city that those projects --
6 that's money that has to be spent on projects in
7 East Chicago. I don't know that you can do
8 anything else with it. I don't think you could
9 distribute it to the partners. I don't think you
10 could --

11 COMMISSIONER SWAN: You could pay
12 salaries or whatever?

13 MR. MIKE PANNOS: I don't think you can
14 get that done.

15 CHAIRMAN KLINEMAN: Do we have a copy of
16 this agreement with the city?

17 MR. MIKE PANNOS: It's within the filing.
18 Glad to provide more copies.

19 MR. TOM BONNER: As a follow-up to your
20 question, Commissioner Swan. The agreement
21 between Showboat Marina Partnership and the city
22 with respect to this particular entity specific-
23 ally requires that East Chicago Second Century

1 undertake affirmative projects -- or affirma-
2 tively undertake projects in the city, and
3 although there are only two that are described as
4 potential projects at this time, I think the
5 language of the agreement but also the underlying
6 intent is the funds not simply sit there, but
7 they be actively invested in the projects in the
8 city. I think were the funds to sit there and
9 simply pay salaries for an extended period
10 without good faith efforts to identify them would
11 be contrary to the agreement, and there is a copy
12 of the agreement, Chairman, that is part of your
13 papers.

14 COMMISSIONER SUNDWICK: Whose
15 recommendation was this that you set up this
16 particular corporation? Did Showboat say we
17 really need to do this?

18 MR. TOM BONNER: It was an agreement that
19 we entered into as partners, Showboat and
20 Waterfront, for the reasons that Mr. Higbee
21 indicated. Adding to the not-for-profit
22 foundations to the for-profit development
23 corporation we thought rounded out the picture it

1 provided greatest opportunity for full
2 development in East Chicago. So it was a
3 decision that was reached by the partners during
4 the formation of the venture two years ago.

5 COMMISSIONER SUNDWICK: You really did
6 that as a part of an effort to win the
7 recognition of the city for being the recommended
8 gaming partnership?

9 MR. TOM BONNER: Yes, Commissioner, it
10 was done in an effort to develop the most
11 meaningful economic development package that we
12 could to present to the city. As we indicated,
13 we thought the synergy of the for-profit and the
14 not-for-profit would do that, and perhaps Mr.
15 Higbee has some additional.

16 COMMISSIONER SUNDWICK: Let me ask a
17 question. So you really felt that you needed
18 this kind of a development corporation to make
19 your presentation to the city more effective to
20 get this endorsement?

21 MR. TOM BONNER: Commissioner, there were
22 probably a number of different vehicles we could
23 have settled upon. We felt this was the best way

1 to maximize the potential for revitalization of
2 the city that went beyond just the area of the
3 riverboat project itself. We felt that not-for-
4 profit plus the for-profit would maximize the
5 chances of that really happening.

6 MR. MIKE HIGBEE: If I can just add.
7 Mike Higbee, Developmental Concepts. If I can
8 add one point to that. I know when we were
9 brought on board a little over 18 months ago one
10 of the objectives that was being talked about by
11 the partnership that impressed me as somebody in
12 the field of economic development is that they
13 were very sensitive to the Commission's apparent
14 desire to encourage local impact as much as
15 possible within the environment of the facility
16 and the boat, what will economic local economic
17 development impact.

18 COMMISSIONER SUNDWICK: When -- start
19 over again. What did you say?

20 MR. MIKE HIGBEE: When we were brought in
21 about 18 months ago --

22 COMMISSIONER SUNDWICK: Eighteen months
23 ago they were worried about the Commission --

1 MR. MIKE HIGBEE: They were concerned
2 about what they perceived as the Commission and
3 the state legislation objective of creating
4 significant local economic development impact,
5 and we were asked to study ways in which the
6 boat, the facility, the investment that goes into
7 the community could have -- could maximize the
8 impact as much as possible, and we took what I
9 think is a very unique approach, and that is that
10 you're going to be generating dollars. You
11 determine how many of the revenues -- how much of
12 the revenues that flow off the boat can go back
13 into the community and we will design for you,
14 with you and the city methods for taking those
15 revenues that come directly off the boat and go
16 into the community and leveraging those many
17 times over. And just by way of example. We
18 talked about this briefly at the hearing back in
19 October, but Second Century, Inc. is anticipated
20 to have .75 percent of adjusted gross gaming
21 revenues going into this corporation. It is
22 anticipated or projected to leverage eight
23 dollars for every one dollar that comes from the

1 boat. Over a five-year period the leveraging
2 amount is going to be \$57 million in a community
3 of approximately 33,000 people, and so there's
4 going to be significant anticipated massive
5 amounts of investment going throughout the
6 community just from this one for-profit corpor-
7 ation focused on East Chicago. Then you couple
8 with that the East Chicago Community Foundation,
9 a not-for-profit, that will be able to go out and
10 qualify for foundation grants, federal grants,
11 assuming there are any left, state grants. They
12 will be able to leverage if you use other CDC's
13 in their experience five dollars for every one
14 dollar put in by the Showboat Marina Partnership.
15 It's anticipated that that leveraging amount over
16 a five-year period will be \$47 million, almost
17 \$48 million. You've heard about the homeowner-
18 ship program. You heard about the down payment
19 assistance program, some of the commercial
20 centers. For example, we own the contract with
21 the City of of East Chicago to look at a
22 commercial revitalization area within the harbor
23 area of East Chicago. So they're anticipating a

1 number of projects that they're now just
2 beginning to look at trying to define and then
3 encourage investment using these entities.

4 COMMISSIONER SWAN: If I can follow up,
5 please. I think you just said that not-for-
6 profits could leverage at maybe --

7 MR. MIKE HIGBEE: About five dollars for
8 every one dollar that they might get through C
9 capital.

10 COMMISSIONER SWAN: So what we're gaining
11 on that is maybe three to one leveraging?

12 MR. MIKE HIGBEE: Right, but also very
13 different types of funds. The for-profit will be
14 able to work with the banking community, with the
15 investment community and attract debt and equity.
16 Traditionally not-for-profits have a very diffi-
17 cult time getting those kinds of funds. I can
18 speak from a great deal of experience in that
19 vein.

20 COMMISSIONER SWAN: Even if they're
21 getting a million dollars a year from the
22 Showboat?

23 MR. MIKE HIGBEE: Certainly that helps.

1 These not-for-profits will have characteristics
2 unlike some other not-for-profits out there.
3 There's no doubt about that. Bottom line is the
4 capacity which is represented by a for-profit
5 development company is something that every
6 banker understands. They do not deal with not-
7 for-profits on a daily basis and that is some-
8 thing they do not understand very well and so
9 there's some reluctance in participating in these
10 projects, but it's only represented by the not-
11 for-profit side of the table.

12 COMMISSIONER SWAN: I need to address one
13 more question on a different subject. In your
14 presentation talked about some of the one-time
15 contributions to the community, five hundred
16 thousand going into the home buyer assistance
17 down payment --

18 MR. MIKE HIGBEE: Down payment assistance
19 program.

20 COMMISSIONER SWAN: Then half a million
21 in the mortgage guarantee program.

22 MR. MIKE HIGBEE: Five million.

23 COMMISSIONER SWAN: I'm sorry. Five

1 million. Those funds themselves, are those
2 stringless? Are those given or are they loans
3 to -- I'm not sure how to say that. Is this
4 still Showboat's money that's sitting there on
5 the five million?

6 MR. MIKE HIGBEE: It is Showboat's money.

7 COMMISSIONER SWAN: It's not actually
8 dollars out there in the pocket per se? Takes
9 cash.

10 MR. MIKE HIGBEE: The five hundred
11 thousand clearly is for the down payment
12 assistance program. The five million will be in
13 the form of a guarantee against loans made by
14 banks to purchase homes in East Chicago.

15 COMMISSIONER VOWELS: Back to Second
16 Century real quick. Has this already been
17 incorporated in the State of Indiana?

18 MR. TOM BONNER: Yes, it has been.

19 COMMISSIONER VOWELS: Who is the
20 registered agent?

21 MR. TOM BONNER: Probably Ice Miller. It
22 was incorporated by Ice Miller who is counsel to
23 the partnership. Shares have not been issued

1 yet, but it has been incorporated.

2 COMMISSIONER BOCHNOWSKI: I get the
3 impression the real winners in this are the
4 lawyers. Not just this, this whole legislation.

5 COMMISSIONER SUNDWICK: Go ahead. Just
6 debating, I think.

7 COMMISSIONER BOCHNOWSKI: Does anybody
8 have any more questions on the contribution? I
9 want -- this is something I think I kind of
10 understand, but I really would like it explained
11 to me. There has been a bond issue. It's been
12 indicated that there will be a bond issue for
13 some of the improvements around the marina. I'd
14 like that des -- what exactly the bond issue was
15 going to be paying for, how that bond issue was
16 structured. Does that mean that taxpayers are
17 now backing a risk venture in some form? Those
18 would be my first questions. That's probably a
19 city question.

20 MR. TOM BONNER: Commissioner, I assume
21 you are referring to the information we disclosed
22 to the Commission with respect to municipal bond
23 financing by the city as opposed to the highly

1 yield corporation finance?

2 COMMISSIONER BOCHNOWSKI: That's exactly
3 right. I just want to understand what that goes
4 for.

5 MR. TOM BONNER: Commissioner, just
6 preliminarily, we have been engaged in discuss-
7 ions with the city about the possibility of
8 municipal financing that may be made available to
9 funding construction of certain components of the
10 project that are in the nature of public improve-
11 ments. For example, the breakwater, the needs to
12 construct a harbor. There has been no definitive
13 agreement yet with respect to that. The city is
14 interested in pursuing it, as are we, and I
15 believe Mr. Fife could provide a little bit more
16 information than I would have available with
17 respect to that.

18 COMMISSIONER BOCHNOWSKI: That would be
19 great.

20 MR. JIM FIFE: Jim Fife, special
21 counsel to the City of East Chicago. As Mr.
22 Bonner has indicated, there have been no
23 agreements on any type of financing. What has

1 occurred in the City of East Chicago, as with a
2 lot of other businesses or industries, they have
3 approached our economic development commission
4 and asked them for a resolution which allows the
5 process to go forward should they decide at some
6 point in time to issue development bonds.
7 Economic development bonds use the city's name
8 for certain tax purposes, as you know. However,
9 the taxpayers or the citizens of East Chicago are
10 not backing the reponse in any way.

11 COMMISSIONER BOCHNOWSKI: So who would
12 back those bonds? How does that work?

13 MR. JIM FIFE: I'm not an economic
14 development attorney nor do I practice --

15 COMMISSIONER BOCHNOWSKI: Somebody --
16 the investors.

17 MR. JIM FIFE: Basically the city lending
18 their name to the issuance of those bonds, much
19 as Inland Steel and LTV have come to us numerous
20 times for improvements, let's say pollution
21 control bonds and et cetera, and some of their
22 financing they've used the city's economic
23 development commission for that purpose.

1 COMMISSIONER VOWELS: What's the
2 advantage of lending the city's name?

3 MR. JIM FIFE: Certain tax reasons.

4 CHAIRMAN KLINEMAN: A low rate. Comes
5 into the lower rate than it does general. But
6 following up, there is no program for the city to
7 lend or actually borrow money at the risk of the
8 general obligations of the City of East Chicago
9 and do anything for the development?

10 MR. JIM FIFE: None whatsoever, nor none
11 anticipated.

12 COMMISSIONER BOCHNOWSKI: Now I have
13 another question. Should this bond issue go
14 through, it's my understanding that the attorney
15 who usually does your bond work is Tom Campus.
16 Would he be handling the bond issue?

17 MR. JIM FIFE: No, the attorney for the
18 economic development commission is Mr. Joe
19 Costanza.

20 COMMISSIONER BOCHNOWSKI: I just want to
21 make sure there would be no conflict of interest
22 here.

23 MR. JIM FIFE: That's right.

1 MR. TOM BONNER: Commissioners, one other
2 point. Because the discussions with the city
3 with respect to the prospective municipal
4 financing are so preliminary, as you'll see in
5 the proformas we filed with you, we assume that
6 all of the financing would be at the much higher
7 corporate bond rate rather than the lower rate,
8 and you've already indicated, Chairman, that one
9 of the great advantages would be essentially some
10 low-cost financing for the project if the city
11 decides to move forward.

12 CHAIRMAN KLINEMAN: Not low cost, but
13 lower cost.

14 MR. TOM BONNER: Lower cost, that's
15 correct.

16 COMMISSIONER BOCHNOWSKI: You can
17 understand my concern is the citizens of East
18 Chicago would not be in any way hurt should
19 something happen?

20 MR. TOM BONNER: And Commissioner,
21 frankly we have the same concern. We've had
22 extensive discussions about it, and as Mr. Fife
23 indicated, that is not within the contemplation

1 of the parties, but at this stage we've assumed
2 that it doesn't happen and we projected the
3 higher interest cost will be larger corporate
4 bond financing.

5 COMMISSIONER BOCHNOWSKI: That was really
6 the only reason I was pursuing that.

7 COMMISSIONER SWAN: I've got a couple
8 other questions. There was some written
9 material, a question I think we need to get out
10 in the open regarding funding of the Yes PAC by
11 Showboat. I think it was \$200,000 or some number
12 like that went in and what happened to the funds
13 after they went in there. I'd like to have just
14 some general explanation of the whole thing so we
15 can get it on the table.

16 MR. TOM BONNER: Again, Commissioner,
17 I'll provide some very general information. I
18 believe that Mr. Fife would then provide some
19 details. As was done in many other communities
20 where referenda were on the ballot in November of
21 '93, a PAC was created. At that time Showboat
22 was probably the only applicant that was active
23 in East Chicago and agreed to fund through the

1 Showboat Marina Partnership the contribution that
2 was made to the PAC. The contribution, as I
3 recall, was \$200,000. That was paid into the
4 PAC. That is pretty much where Showboat's role
5 ceased with respect to that. Our PAC was managed
6 by an independent board and, to my knowledge, the
7 Indiana election campaign financing forms were
8 filed by the PAC, and I'd ask Mr. Fife to provide
9 more information to you on it.

10 COMMISSIONER SWAN: Who was involved in
11 that negotiation, if you don't mind my asking?

12 MR. TOM BONNER: Which negotiation?

13 COMMISSIONER SWAN: You said that as part
14 of the negotiation Showboat agreed to put two
15 hundred thousand into the PAC.

16 MR. TOM BONNER: Right, I was personally
17 involved in those discussions.

18 COMMISSIONER SWAN: With whom?

19 MR. TOM BONNER: With -- there were -- I
20 cannot recall any specific individuals,
21 Commissioner. I know that they were individuals
22 active in the city who are interested in having
23 the referendum passed. There may have been

1 representatives of the city. I can't be any more
2 specific than that.

3 MR. JIM FIFE: Jim Fife. I can add to
4 Mr. Bonner's response. The individuals involved
5 were the chairman of the PAC, Mr. James Knight,
6 and the treasurer of the PAC, Mr. Anthony Mervan.
7 What was involved in was setting up of a budget
8 to estimate the costs of the referendum and that
9 was communicated to Showboat Marina Partnership.
10 They were asked for the contribution. Those
11 contributions were placed in the PAC and expendi-
12 tures were made from there. The reports are on
13 file with the county election board and I believe
14 as well as with the state election board.

15 COMMISSIONER SWAN: There was some
16 rhetoric about some funds actually going out of
17 that PAC to some of the Democratic precinct
18 managers or something like that. I read that
19 accurately.

20 MR. JIM FIFE: Some of those funds were
21 used to get the vote out, campaigns, and we do
22 that through our precinct organization. As to
23 the exact amounts and who was involved, those are

1 all listed on the report.

2 CHAIRMAN KLINEMAN: What was the last
3 part of your answer as to the exact --

4 MR. JIM FIFE: As to the exact amounts
5 and those committeemen that were involved in
6 helping us get out the vote, those are all listed
7 on the report.

8 COMMISSIONER SWAN: The article that I
9 had read kind of implied that if we pay off for
10 doing nice things for Showboat or endorsing
11 Showboat.

12 MR. JIM FIFE: We have in fact a very
13 active local precinct committee organization that
14 the city calls upon and uses for various purposes
15 and, of course, they're involved in the election
16 at the most local level. We depend on them very
17 highly. We also use them for other things. And
18 just an example. Last August when we had our big
19 tire fire up in that area we also called upon the
20 local precinct committeemen group to get the
21 notices out and the word out to the residents.
22 So we don't only use them in the political sense,
23 but they're a very valuable tool for us in the

1 city.

2 COMMISSIONER SUNDWICK: I couldn't let
3 this go. I'd like to take us back to October
4 before we were silenced by the courts. You were
5 being asked questions from Mr. Vowels about how
6 you had looked at Lawrenceburg and had looked at
7 Hammond and decided that you really didn't want
8 to participate there because they had already, in
9 your opinion, pre-determined who their choices
10 would be.

11 MR. TOM BONNER: Commissioner, they
12 didn't specifically look at Lawrenceburg. They
13 looked at a couple other locations down south and
14 then specifically looked actually more possibly
15 at Gary and East Chicago. I believe in response
16 to Commissioner Vowels' question which was
17 specifically with respect to Hammond, I done our
18 due diligence investigation and had come to
19 understand that the (inaudible) had established a
20 presence in the City of Hammond and had been very
21 active in becoming visible and establishing a
22 relationship with the City of Hammond. Because I
23 was in the earliest stage of investigation of a

1 good location for Showboat to pursue, I simply
2 decided to see if there were locales where such
3 relationships had not been established between
4 prospective gaming operators and the city. That
5 lead me to then look in East Chicago. That, as I
6 recall, was --

7 COMMISSIONER SUNDWICK: Do you recall
8 what precipitated that line of questioning, why
9 we asked the question?

10 MR. TOM BONNER: I'm not sure that I
11 specifically do, Commissioner.

12 COMMISSIONER SUNDWICK: Mr. Fife, maybe
13 could you -- do you recall what lead up to that
14 particular questioning?

15 MR. JIM FIFE: If I recall, it might have
16 been a line that the Commission was asking as to
17 why have other developers had not chosen to come
18 back to East Chicago. If I recall correctly, I
19 think that's when Mr. Bonner then gave his
20 personal opinion as to what was happening within
21 their organization.

22 COMMISSIONER SUNDWICK: I think to
23 paraphrase where we came from and to is that it

1 seems to me that, as I recall -- and correct me
2 if I'm wrong -- that prior to September 1993
3 there had been a partnership formed to attract
4 applicants to East Chicago.

5 MR. JIM FIFE: As far as Waterfront
6 Development is concerned? Yes, I believe they
7 were.

8 COMMISSIONER SUNDWICK: They had in fact
9 interviewed a number of prospective applicants,
10 if you will, Showboat being one of them? Is that
11 right?

12 MR. JIM FIFE: I don't have any knowledge
13 of that. I think maybe Mr. Pannos would.

14 MR. MIKE PANNOS: As I said before we
15 were interrupted, we set about as the (inaudible)
16 was being passed of trying to find somebody we
17 thought would pass muster with the Commission
18 before there was a commission, and I believe what
19 we did was look for some things that we had
20 developed in our own criteria of what would make
21 that happen, and we talked to everybody, and if
22 somebody didn't reach out to us, we reached out
23 to them. We made phone calls. We made contacts.

1 We tried to do everything we could to make sure
2 that the universe was as complete as possible.
3 We did that through various methods, through our
4 own contacts, through Barry Porter who is one of
5 our partners and investment banker, and Mayor
6 Sterns. We covered the waterfront so to speak.

7 COMMISSIONER SUNDWICK: How many
8 companies did you talk to?

9 MR. MIKE PANNOS: I have a box -- and it
10 may even be in Indianapolis -- that has brochures
11 from a large number. I would say it was probably
12 between fifteen, twenty people that I had some
13 form of conversation with, some much more
14 substantiative than others, but we really went
15 through that process as thoroughly as possible
16 and we really got down to a fairly small range,
17 and as I said in October, I think one of the
18 principle criteria was that we had somebody that
19 was financially able to pass muster. We wanted
20 somebody that ethically was able to not give the
21 process a hiccup, which for Tom Cappas and I,
22 that meant trying to find somebody that was
23 probably licensed in New Jersey because we knew

1 that was probably the strictest one out there,
2 and we were able to make it there. It gave us
3 some -- that if you made it there that you
4 probably had a fairly good chance of standing
5 under the bright lights, and we also wanted
6 somebody that we felt was compatible in terms of
7 being able to have an understanding of what can
8 happen to re-make a community, and I think as we
9 got down to it there were certainly a couple of
10 people that fit that mold, but I don't think
11 anybody better than what we came out with in
12 Showboat. So we were very active in trying to
13 fit together a deal and trying to get a project
14 together and we took a lead and we were pretty
15 open and visible and all over the place trying to
16 do that.

17 COMMISSIONER SWAN: I have a specific
18 question I'd like to ask along that line. I
19 wrote it down so I wouldn't forget. Was there
20 any agreement between the Waterfront group of
21 local investors and the city that could have been
22 interpreted by other applicants as shutting the
23 door to applying? I would like you to answer

1 that, Mr. Bonner, and, Mr. Fife, I'd like to hear
2 from you. Any agreement?

3 MR. MIKE PANNOS: There was absolutely no
4 agreement between the city and Waterfront or any
5 of the individuals connected with Waterfront with
6 regard to what would happen with us as an appli-
7 cant, with us with the partnership in any way,
8 shape or form. What I said in October was Tom
9 Cappas and I had talked to everybody we could,
10 whether it was a developer, whether it was people
11 in the community, to make people aware of our
12 activities. There was never ever an agreement by
13 this entity and the City of East Chicago that
14 we're the guys or you're the one and nobody else
15 is here or anything like that. Frankly, I think
16 that would be one of the stupidest things that
17 anybody could ever do because things like that
18 don't stand in the light of day. I've been
19 involved in public life for a long time and it
20 doesn't work. That's from our perspective --
21 does that answer?

22 COMMISSIONER SWAN: Yes.

23 MR. JIM FIFE: I can basically just

1 reiterate the comments of Mr. Pannos that there
2 was no absolutely no agreement between Waterfront
3 or any of their personnel or people with the City
4 of East Chicago.

5 COMMISSIONER SUNDWICK: Mr. Fife, you had
6 said the last time we visited that in fact prior
7 to September 1993 that the partnership had made
8 their selection who their partner should be and
9 submitted that to Showboat and the partnership to
10 the city, correct?

11 MR. JIM FIFE: Correct.

12 COMMISSIONER SUNDWICK: There were no
13 other applicants at that time within the city
14 under consideration?

15 MR. JIM FIFE: There was one other
16 applicant, Summit Casino of Indiana.

17 COMMISSIONER SUNDWICK: When did they
18 apply?

19 MR. JIM FIFE: I believe they both
20 applied on the same day. I believe that was
21 September 15, 1993.

22 COMMISSIONER SUNDWICK: Kind of refresh
23 us what happened then.

1 MR. JIM FIFE: I believe that was the
2 day that was set by the Commission for filing
3 Part 1 and also by the local county election
4 board as the filing date with which to have your
5 fee filed so the referendum could go forward on
6 November 2nd. September 15th was that day, and I
7 believe the two of them had a flight on that day.

8 COMMISSIONER SUNDWICK: Mr. Thar, who
9 were the people that -- what was the organization
10 that we turned down as far as extending --

11 MR. THAR: I believe it was Grand
12 Casinos, New Albany Grand Casinos was attempting
13 to move their application from either Floyd or
14 Clark -- would have been Floyd County. They
15 attempted to do that after the time of the
16 deadline for Part 1 in February of '94.
17 September of '93, I believe Mr. Fife's rendition
18 is correct, both Showboat Marina Partnership and
19 Summit Casino filed an application. Subsequently
20 from the records I've seen, Summit within 48
21 hours or 72 hours requested to be able to with-
22 draw and refund the \$50,000. They were allowed
23 to withdraw. The refund, of course, did not

1 occur. Their statement was that they had been
2 advised they were not welcome in East Chicago.
3 I guess the question kicks to the city from that.
4 Did you do anything either to Summit or in
5 relationship to the Waterfront group that caused
6 them to feel that they were not welcome as an
7 applicant?

8 MR. JIM FIFE: No, we did nothing to
9 discourage Summit. As a matter of fact, we
10 always encouraged everyone we had talked to, and
11 after I had seen those same statements in the
12 paper I had contacted almost all of our depart-
13 ment heads to see if they had any conversations
14 with any gamers and, if so, what the contents of
15 the conversations were. I believe I identified
16 three or four department heads in the City of
17 East Chicago that had some contact with gamers.
18 A lot of those contacts were through our city
19 engineer who received some calls on some maps of
20 the site and questions of that nature. I
21 specifically asked them if they had any convers-
22 ations with Summit and, if so, did they ever
23 discourage them from applying, and all their

1 answers were negative to both those questions.

2 CHAIRMAN KLINEMAN: I think maybe we'll
3 take a break now. It's a little past 12:30.
4 We're running a little late today, but maybe
5 we'll take a break, come back here at 1:30 and we
6 will then pick up on the questioning of the city
7 and the applicant and thereafter, of course,
8 we'll discuss the City of Hammond license. We'll
9 be back here a little past 1:30.

10 (A lunch break was taken at this time.)

11 CHAIRMAN KLINEMAN: If we could start to
12 come back to work. I think we're ready to go
13 now. I have one sort of general question. How
14 many people are here in the audience who are
15 principals in one fashion or another in either
16 Waterfront or therefore in Showboat? I have a
17 question which I want to address to each of you
18 and then I want you to come forward, if you will,
19 state your name and answer the question for me.
20 I don't want to repeat the question, but I will
21 repeat it a couple times to get it started so you
22 understand what I have to say. As a preface,
23 anything that is said in these hearings really is

1 information that we are receiving as a state
2 commission upon which we will rely and upon which
3 we will hopefully grant or deny a certificate of
4 suitability and thereafter a license. So any-
5 thing you would tell us, of course, will be part
6 of the record and will be part of the information
7 upon which we do rely, and I would say if it
8 turns out that what you tell us is not correct,
9 that would obviously be grounds for revocation of
10 whatever we had done. I don't want to sound that
11 stern, but the question I'd like to ask each one
12 of the principals and if there are people who are
13 principals who are not here today, if they would
14 file an answer under oath to this question. The
15 question is have you directly or indirectly
16 assigned or intend or agreed to assign or intend
17 to assign any of your interest or profits in the
18 entity? I'll repeat it one more time. Have you
19 directly or indirectly assigned or agreed to
20 assign or promised to assign any of your
21 interests or profits in the entity known as
22 Showboat Marina? If you can state your name and
23 answer that question on the record for us.

1 MR. MIKE PANNOS: My name is Michael
2 Pannos. I do not -- the answer is I have not
3 assigned or do not intend to assign any interest
4 that I hold. There are three individuals, by the
5 way, from Waterfront, two that just left to catch
6 a plane, George Novogroder and Barry Porter. Mr.
7 Kefalidis missed his plane this morning to be
8 here. They will file such a statement. We'll
9 have it to the office by Monday.

10 CHAIRMAN KLINEMAN: Fine. Next.

11 KELL HOUSSELS: Kell Houssels, Mr.
12 Chairman. On behalf of Showboat, we do not
13 intend to assign any of our interest.

14 THOMAS CAPPAS: My name is Thomas Cappas.
15 I do not intend to assign -- the answer is no to
16 your question.

17 CHAIRMAN KLINEMAN: Do not --

18 THOMAS CAPPAS: Have not do not and will
19 not.

20 CHAIRMAN KLINEMAN: Assign any interest
21 or profit.

22 THOMAS CAPPAS: Assign interst -- as you
23 stated your question.

1 ELIZABETH CAPPAS: My name is Elizabeth
2 Cappas and I have not, will not, do not, any of
3 that stuff.

4 PETER CAPPAS: My name is Peter Cappas
5 and I will not and have not assigned, so the
6 answer is no.

7 MARGARET PANNOS: My name is Margaret
8 Pannos and I have and will not and do not intend
9 to assign.

10 JOHN FLORES: My name is John Flores and
11 have not, will not, nor do I intend to assign.

12 GEORGE PAPEY: I will not and don't have
13 no intentions.

14 LOUIE GONZALES: Mr. Chairman, my name
15 is Louie Gonzales and I have no intention of
16 assigning my profits.

17 ROBERT HULSE: My name is Robert Hulse.
18 I have no intentions of assigning any of my
19 interests to anyone at this time or no time in
20 the future.

21 CHAIRMAN KLINEMAN: Is that it? Other
22 than the three who are not here. That covers a
23 hundred percent of the interest.

1 MR. MIKE PANNOS: Sam Cappas is involved
2 in a trial as an attorney in federal court and
3 was not unable to be here today, but I will have
4 his statement as well on Monday to the
5 Commission.

6 CHAIRMAN KLINEMAN: Then we will have a
7 hundred percent representing to the Commission
8 that they have not directly or indirectly
9 assigned or intend to assign any of their
10 interest or profits in the entity?

11 MR. MIKE PANNOS: That's correct, Mr.
12 Chairman.

13 CHAIRMAN KLINEMAN: Thank you

14 COMMISSIONER SWAN: I wanted to ask
15 another question, if we could. A lot of time
16 passed since last month and I've really kind of
17 forgotten what's inside the proposal as far as
18 dockside type of development, what, Mr. Bonner,
19 your plans are development dockside-wise. Could
20 you just share that with me one more time?

21 MR. TOM BONNER: Yes, Commissioner, the
22 plan contemplates a land-based pavillion of
23 approximately 95,000 square feet that will house

1 a restaurant, lounge facilities, patron service
2 facilities such as coat check, gift shop, ticket-
3 ing and promotion facility. It contemplates a
4 500-car parking garage with 2,800 surface parking
5 spaces. It includes approximately \$12 million of
6 marine-related improvements such as the break-
7 water, bulkhead docking and mooring systems.
8 Includes roughly five or six million dollars
9 worth of site-related improvements such as road-
10 ways, site utilities and drainage, as well as the
11 vessel, of course, which we're carrying in the
12 budget at around \$42 million.

13 COMMISSIONER SWAN: No hotel involved and
14 you could explain to me the rationale there?

15 MR. TOM BONNER: Sure, Commissioner, I'd
16 like to ask Mark Miller, if he could, please, to
17 give you the details on that answer.

18 MR. MARK MILLER: Thank you. Mark
19 Miller again with Showboat. My notes out here so
20 I don't miss anything. There are basically three
21 reasons or factors that we took into consider-
22 ation in deciding not to include a hotel as one
23 of the project components. The first is our

1 analysis of the market. The second is our
2 prioritization of potential project components.
3 And the final one is our desire to respond to the
4 city's plan and the city's needs with regard to
5 redevelopment.

6 In terms of the market analysis, I guess
7 we start with the fact that we look at the market
8 we view it to be primarily a convenience or
9 drive-in market. That's not to say that there
10 aren't some customers who would like overnight
11 accommodations, but as a percentage of the total
12 customer base that we would be appealing to go,
13 it's a very small percentage. We have a very
14 dense population very close in to our facility
15 and to the other facilities in the area which
16 should result in a higher frequency of visits and
17 less demand for overnight accommodations.

18 The second element of our decision is
19 the prioritization of project components. By
20 that I mean is we have limited resources that we
21 can spend on this project. How do we best
22 allocate those resources to maximize the benefits
23 of the project? In our estimation the number one

1 priority was the vessel itself, and we have
2 proposed a vessel which is larger than most
3 vessels being proposed or in operation in the
4 area. That's important to us in terms of being
5 able to create a distinguishable difference for
6 us as a competitor. By having a larger boat we
7 should be able to provide more of the gaming
8 product. We should be able to provide a greater
9 variety of gaming product and we should be able
10 to provide a more comfortable gaming environment,
11 all three of which we believe are highly
12 influential in terms of customer satisfaction and
13 will be important to and greatly appreciated by
14 most of the customers who will be coming to our
15 facility.

16 In addition, as Tom has mentioned
17 earlier, there are substantial funds in our
18 project which are dedicated to lakefront re-
19 development components of the project. The
20 breakwater is a very expensive element. It's
21 important to us and it has been important to the
22 city in terms of their plans for redevelopment of
23 the lakefront. There is beach reclamation there.

1 The breakwater has been designed specifically to
2 enhance the recreational use of the area in terms
3 of providing deep-water fishing opportunities for
4 people who might not otherwise have those
5 opportunities.

6 I guess on the third element, which is
7 our desire to respond to the city's desires and
8 plans and redevelopment needs. We first saw our
9 primary role as being to provide the maximum
10 redevelopment resources possible from this
11 project to the city and then -- and by so doing,
12 allow the city the freedom to then allocate those
13 resources and to use those resources as the
14 community see fits and has prioritized their
15 needs. So we looked at this as how can we
16 provide the most money and then let them decide
17 how to spend it. And I think that the larger
18 boat, the more gaming capacity is very important
19 to us meeting that objective in terms of our
20 role, and I think those are the key things.

21 The final point I'd like to make is that
22 we would like to have a hotel. There's probably
23 lots of things we'd like to have. So it's

1 strictly a matter of prioritization of resource
2 allocation. There is room on the site for a
3 hotel. The city has indicated to us that they're
4 not all that excited about having a hotel built
5 on this site, and you might ask them about that,
6 but should in the future we find that there's
7 customer demand for a hotel and should we find
8 that it's an economically viable project
9 component that we could add to our project, we
10 have the space. We've looked at that. We have
11 budgeted approximately \$44 million in capital
12 improvement for the first five years and almost a
13 hundred million over the first ten years. So
14 there are financial resources available to
15 improve this project. As a company we have a
16 record of -- I think if you looked at us against
17 our peer group in gaming, you'd find that we have
18 a record of higher than average reinvestment in
19 our projects in terms of capital improvements and
20 we would -- we will be looking at a hotel and
21 talking to the city about it in the future. I
22 hope that answers your question.

23 COMMISSIONER SWAN: It does. I'd like to

1 hear the city's perspective as well.

2 MR. RUSS TAYLOR: I'm Russ Taylor, City
3 Planner. The city in 1986 created a master plan
4 that had a hotel, retail center, conference
5 facility, a large breakwater much in the same
6 configuration as we show today and even a stretch
7 for some condominiums out on the breakwater to
8 accentuate the fact that we're looking for
9 creative, well thought out and comprehensive
10 development scheme for our lakefront. At eight
11 year-period every seeking of any interest to
12 develop that site plan came as naught and when
13 Showboat came into town its representative is a
14 huge anchor for development of our lakefront.
15 The city amended its plan to remove that element.
16 In fact, the first time I saw a site plan created
17 by Showboat it showed a hotel on there and my
18 immediate reaction was to remove it.

19 The aspect of a hotel is a very
20 intricate concern to the city. East Chicago with
21 its physical location between Hammond and Gary
22 strongly recognizes that we are a community of
23 three sisters and, as like, these sisters have

1 hotel rooms that have vacancy rates that are not
2 conducive to the investment of this sort within
3 the region. East Chicago is an extremely
4 industrialized community. The needs and desires
5 for people to come and visit us for a location
6 for entertainment and for resort type desti-
7 nations is prohibitive, if not just negatively
8 impacting that sort of reaction from the public.
9 In the distance I do see maybe that sort of
10 desire might be to come to East Chicago and
11 visit, but it's going to take a huge effort and
12 coordinated capabilities of both public and
13 private investments to make East Chicago a place
14 where people would want to come and visit.

15 Our retail facilities are deteriorating.
16 Landlords within the community are extrapolating
17 high rents from the merchants who do business and
18 this in turn stops them from reinvesting capital
19 in merchandising. The merchants for so long have
20 been selling merchandise to citizens who really
21 don't have liquid assets in their pockets.
22 They're not -- they don't have the money to go
23 out there and buy things, and the merchants as a

1 result have skewed their whole merchandising
2 scheme to sell to those who rely on public
3 support to make ends meet. As a result, we'll
4 have to work with Mike Higbee and other economic
5 planners to retool the merchants to think about
6 selling to people who have money in their pocket.

7 The first stage of this, as we see it,
8 is the forecast plan for Second Century to
9 develop a retail center at the corner of Guthry
10 and Michigan Avenue. This is going to be a place
11 where people who live in and near East Chicago
12 will come and park their car, board a bus and go
13 to work and then come back again. The merchants
14 will most likely know these residents. They'll
15 have an opportunity to merchandise to them for
16 the first time in many cases where they will have
17 a paycheck when they come back to the site. We
18 see this as a huge opportunity in that we can
19 help stimulate this type of development and
20 create the initial steps to creating an environ-
21 ment people would want to come and visit.

22 As I see the typical nature of the
23 patrons coming to this entertainment complex,

1 because of our physical location they will come
2 to the site and leave. As a result of our
3 location near the expressway system, they have
4 excellent access to some of the higher quality
5 hotel facilities in Lake County, and we would
6 foster that first before we considered any sort
7 of hotel investment.

8 As time goes on, as the physical face
9 of our city begins to change through the re-
10 development opportunities that the two foun-
11 dations, the education foundation to help train
12 and educate our people to think about
13 reinvestment, the development foundation that
14 will help work with public funds and foundations
15 to charter improvements in the community, and I
16 think most importantly this private entity that
17 is -- this public entity -- the private Second
18 Century entity that is going to come in and do
19 some real capital investment from a profitable
20 center and encourage other profit-oriented
21 developers to come into town and reface our city.
22 Then we can start looking at sites where a hotel
23 might be considered to be built. At that point

1 in time we would look upon the expertise of
2 Second Century or other developers to come in and
3 foster that sort of development, but as you can
4 see through my explanation, it's going to be
5 quite a number of years and the city right now
6 does not want to sacrifice the use of public land
7 at the park for that sort of investment.

8 COMMISSIONER SWAN: You're really getting
9 a good return on your investment by investing in
10 more dollars in the boat and getting the dollars
11 and those dollars coming back to the city and
12 into the development of the city in its own way.
13 That may be what Mr. Miller was referring to.

14 MR. RUSS TAYLOR: The primary aspect is
15 that. That's a two-pronged approach. One is
16 that they're going to create jobs in an environ-
17 ment that we know will be supported by its use.
18 If a hotel is built my first response would be
19 come up with a re-use plan because I don't think
20 a hotel would function. Any employment opportun-
21 ities within a structure like that won't have any
22 help at all.

23 CHAIRMAN KLINEMAN: What's the total

1 dollar investment in hard assets?

2 MR. TOM BONNER: May have to back into
3 that, Mr. Chairman, but there's \$156 million
4 project, little over \$16 million of which is
5 fixed dollar investment contributions to the City
6 of East Chicago. That leaves \$140 million
7 balance. Roughly \$100 million or \$105 million of
8 that is what we would call hard construction
9 dollars.

10 CHAIRMAN KLINEMAN: Including the \$42
11 million for the boat?

12 MR. TOM BONNER: That's correct.

13 CHAIRMAN KLINEMAN: Have you had a chance
14 to review the investment of the other people to
15 whom we have granted certificates of suitability
16 and how does your investment stack up against
17 theirs?

18 MR. TOM BONNER: We're generally familiar
19 with the applications that have been presented to
20 you, and I think in terms of the investment in
21 hard dollars, they're comparable. We think that
22 in terms of the economic development incentives
23 that will be funnelled to the city and its

1 agencies, it's at least as good, if not better
2 than all that you've looked at to date.

3 CHAIRMAN KLINEMAN: That was my second
4 question. What you have provided in the way of
5 direct payments and incentives to the city, how
6 does your proposal stack up against the other
7 groups that we've granted certificates of
8 suitability to?

9 MR. TOM BONNER: Mr. Chairman, my
10 recollection is -- and perhaps Mr. Higbee has
11 more definitive information. My recollection is
12 that with the exception of one proposal I think
13 that the \$16 million is perhaps the second
14 largest direct contribution that has been
15 committed to a city, but I can't say that without
16 qualification.

17 CHAIRMAN KLINEMAN: Also the revenue
18 share of proposals?

19 MR. TOM BONNER: Mr. Chairman, when we
20 combine everything and also take into account the
21 foundations that we have formed and the antici-
22 pated leveraging ratios that are expected, we
23 have not found an economic development agreement

1 in the state that rivals our agreement with the
2 city.

3 CHAIRMAN KLINEMAN: Yours is the best,
4 you're representing to us?

5 MR. TOM BONNER: We believe that to be
6 the case, sir.

7 CHAIRMAN KLINEMAN: Does Mr. Higbee want
8 to add anything to that?

9 MR. MIKE HIGBEE: Mike Higbee,
10 Development Concepts. Commissioner, we have done
11 an analysis that shows that we believe this
12 facility is very competitive with the other boats
13 in the northwest Indiana area and competes
14 extremely well with the other applicants from the
15 other communities. We have broken that down on a
16 percentage basis and looking at the gross
17 revenues. The revenues returned to the community
18 are extremely high when compared to the others.

19 CHAIRMAN KLINEMAN: You're talking about
20 the influence of jobs and things like that or are
21 you talking about purely contributions to the
22 city and tax sharing and so forth?

23 MR. MIKE HIGBEE: We're really talking

1 about the whole package, but the percentage of
2 revenues from the adjusted gross gaming revenue
3 we believe is favorable to this community when
4 compared to some of the other applications.

5 CHAIRMAN KLINEMAN: Is it as good as,
6 better than, equal to?

7 MR. MIKE HIGBEE: I hesitate because it
8 really is kind of an apples and oranges compari-
9 son in some cases, but we look at the 3.75
10 percent of the adjusted gross gaming revenues and
11 the revenues that they're projecting. They're in
12 the upper quartile at the very least, if not at
13 the top of the heap, but I would qualify at the
14 top of the heap by saying there are some oddities
15 with some of the other applications that might
16 change that around a little bit.

17 CHAIRMAN KLINEMAN: Is anyone familiar
18 with how this proposal with the city evolved?
19 Was it something less earlier and then as a
20 result of something grew or shrunk or something?

21 MR. TOM BONNER: Mr. Chairman, I was
22 involved in the negotiations with the city, Mr.
23 Fife and Mr. Artis primarily. I think to answer

1 your specific question, yes, the agreement did
2 change over the past two years. We entered into
3 an agreement in April of 1994 with the city and
4 that was filed with the Commission. We re-
5 visited that agreement at the request of the city
6 in April of 1995. As a result of those addition-
7 al discussions with the city, we amended the
8 agreement and increased the value of the agree-
9 ment to the city substantially. Certainly the
10 fixed contributions to the city increased signi-
11 ficantly in the range of \$6 million plus in
12 direct contributions to the city. The percentage
13 contributions did not change, but the fixed
14 contributions did change, and perhaps Mr. Fife or
15 Mr. Artis --

16 CHAIRMAN KLINEMAN: Fixed contributions,
17 are they phased in as triggered or are they
18 already committed to --

19 MR. TOM BONNER: Some are committed
20 without regard to when and if a certificate were
21 to be issued. We have already contributed about
22 a million dollars.

23 CHAIRMAN KLINEMAN: Other than if, other

1 than that contingency, are there other
2 contingencies, time factors or --

3 MR. TOM BONNER: Chairman, there are time
4 factors. Some of these obligations will arise in
5 conjunction with the development of programs that
6 the city wishes to pursue, but absent that, once
7 the programs are developed, those funds will be
8 contributed and we have a course of dealing with
9 the city already where they have replaced certain
10 programs that they thought they would develop and
11 later decided not to. We've held those dollars
12 in place and have agreed to dedicate them to
13 other programs that the city would like us to
14 fund, but for the passage of time with some of
15 these items, there are no conditions or strings.

16 CHAIRMAN KLINEMAN: Has the city received
17 any kind of security to beef up your promise to
18 do certain things on down the road?

19 MR. TOM BONNER: There has been no type
20 of security instrument or collateral posted with
21 the city to back that up, Chairman.

22 CHAIRMAN KLINEMAN: I guess -- and I
23 don't know because I'm not looking at what we're

1 talking about. I'm just talking in general, but
2 the fear that we all have that things might not
3 go as well as you anticipate and, therefore,
4 quote, the boat will sail away and the city won't
5 get those things which it thought it was going to
6 get as a result of that. That's the type of
7 question I'm asking. Is the city satisfied that
8 it's received all it can in the way of assurances
9 that regardless of whether or not Showboat turns
10 out to be the wonderful operator we all hope it
11 would be if it got a license, the city would
12 still get that which it bargained for?

13 MR. TOM BONNER: Mr. Chairman, I'd like
14 Mr. Artis to address that. His words may be more
15 valuable than mine. Just as an example. There
16 are significant capital investments that are
17 affixed to the realty that cannot be moved. The
18 company's made a significant contribution to the
19 project already.

20 CHAIRMAN KLINEMAN: The pavillion's a
21 little hard to recyle. Somebody said you can't
22 recycle a hotel.

23 MR. TOM BONNER: But we believe that the

1 company has demonstrated a firm commitment to the
2 project. We've invested over \$8 million to date
3 in project development activities, but I think
4 Mr. Artis can address it from the city's
5 perspective for you, Mr. Chairman.

6 MR. JOHN ARTIS: John Artis, Department
7 of Redevelopment. The city in its economic
8 development agreement for Showboat has included
9 certain projects or elements that are to be
10 funded regardless of whether or not, as Tom has
11 indicated, a certificate of suitability is issued
12 or not. Amongst those is the development of the
13 Washington High School site which Mike Pannos
14 alluded to earlier. It is a site where we're
15 anticipating that middle income or market homes
16 will be developed on that particular site. We've
17 also received commitments and money has already
18 been expended on a number of projects we've
19 identified in a subsequent amendment to the
20 original agreement with Showboat. As Tom has
21 already indicated, those commitments now total
22 somewhere in the neighborhood of one million
23 dollars. That is, on projects and programs and

1 materials or equipment that's already been
2 purchased and currently being utilized by the
3 City of East Chicago. Prime example, as we
4 indicated in our presentation, the purchase of
5 police cars to augment our community policing
6 program, assistance with infrastructure
7 development, specifically sidewalk replacements
8 and demolition of vacant and deteriorated
9 buildings within our community. These kinds of
10 project which have been identified by the
11 community as having some priority and needing to
12 be addressed immediately have in fact been
13 addressed by Showboat via the agreement we have.
14 As I indicated, there are certain stipulations in
15 that agreement to require Showboat Marina
16 Partnership to carry out certain obligations to
17 the City of East Chicago regardless of the award
18 of certificate of suitability. So we are some-
19 what -- more than somewhat pleased with that
20 arrangement and their ability to live up to it.

21 CHAIRMAN KLINEMAN: You and Mr. Fife
22 don't know whether there's been actual bonds or
23 security?

1 MR. JOHN ARTIS: There have been no bonds
2 or instruments of that nature to secure at this
3 particular point in time.

4 COMMISSIONER SUNDWICK: Do you feel that
5 would be appropriate? The Aztar boat is going to
6 open. You at this point have \$13 million worth
7 of bond to make sure they live up to their
8 agreements. That was the preferred supplier
9 vendor, if you will. You're saying this is going
10 to be great and we really don't need any bonds;
11 they're just going to do what they say they're
12 going to do?

13 MR. JOHN ARTIS: I guess the only -- I'll
14 defer to Jim to elaborate on this, but I think
15 the only response I can give you at this
16 particular point in time is that we locally
17 looked at what our particular needs were, what
18 our concerns were relative to economic develop-
19 ment projects that emanated from the task force
20 process and by virtue of the fact that dollars
21 have already been expended separate and apart
22 from those necessary to prepare the stage area
23 for the gaming operation was a commitment that

1 they've lived up to and is a clear indication to
2 us that what we have thus far meets the needs of
3 the City of East Chicago at this particular point
4 in time. If Jim wants to address more.

5 MR. JIM FIFE: To this date there has
6 been no consideration of any surety or bonds. I
7 think that's one of the things that early on we
8 found of Showboat is one of the things we were
9 very highly impressed with them is they seemed to
10 be a company and corporation that lived up to
11 their word and that took their word very
12 seriously. We felt very confident from very
13 early on that whatever commitments were made by
14 them that they would keep, and we've been
15 satisfied already with the things that we have
16 asked them for that they have responded in kind.

17 COMMISSIONER SUNDWICK: You're an
18 attorney, are you?

19 MR. JIM FIFE: Yes.

20 COMMISSIONER SUNDWICK: You take people's
21 word for a lot of things?

22 MR. JIM FIFE: Occasionally.

23 CHAIRMAN KLINEMAN: We would never have

1 to write contracts. We'd be out of business in
2 that respect.

3 COMMISSIONER BOCHNOWSKI: Would Showboat
4 be willing to do something on the order of Aztar
5 has done should you get the certificate?

6 MR. TOM BONNER: Commissioner, I
7 probably have to refer that to others within the
8 Showboat organization for a definitive response.
9 It was my understanding that the security that
10 Aztar was posting, if it's what was being
11 discussed today, is the statutorily required
12 bonds that must be in place 60 days or so before
13 opening. Certainly that will be provided at the
14 appropriate time.

15 CHAIRMAN KLINEMAN: It does cover items
16 of -- doesn't it?

17 MR. THAR: The City of Evansville had
18 negotiated for those items. We also, however,
19 during the course of the bond discussion took the
20 position, of which I might say Aztar was not a
21 hundred percent sold on it, but agreed that
22 certain initiatives or incentives to the city to
23 the effect in the statute. Incentives therefore

1 can be required to be covered by bond that this
2 Commission orders to have put in place if East
3 Chicago does not order to have put in place.
4 There's two ways to get to that end.

5 COMMISSIONER BOCHNOWSKI: So we could
6 require it?

7 MR. THAR: Yes, a bond that satisfies
8 this Commission with regard to the incentives as
9 well as other infrastructure improvements, et
10 cetera.

11 CHAIRMAN KLINEMAN: What about an
12 agreement of non-competition?

13 MR. TOM BONNER: Mr. Chairman, Mr.
14 Houssels will address that for the Commission.

15 MR. KELL HOUSSELS: Chairman Klineman,
16 Kell Houssels. Our assessment of the East
17 Chicago market is that it can support many more
18 properties than are currently anticipated for the
19 Chicago market. For example, Atlantic City
20 produced about \$3.4 billion in revenue in 1994,
21 gaming revenue. It has about half the population
22 base in a 120-mile area -- it has about the twice
23 the population base in a 120-mile area of the

1 Chicago area. We think that by 1997, given the
2 current growth rates in the Atlantic City market,
3 that we're going to be looking at about a \$4
4 billion revenue number in 1997 which will be the
5 first full year of operation of the East Chicago
6 boat. This would come to about -- per our
7 estimates about a \$2 billion market for the
8 Chicago area. Given the current supply we think
9 the Chicago market could definitely support
10 additional boats.

11 Showboat, as I mentioned, is a -- we are
12 interested in expansion. That's why we're here
13 in East Chicago and we're here in Indiana, and we
14 would prefer unfettered access to these emerging
15 markets as long as they met our objectives, and
16 it certainly looks like the Chicago market at
17 this point in time would meet our objectives in
18 terms of the growth market.

19 Having said that, it's also our
20 objective to maintain good positive relationships
21 with the communities in which we're involved, and
22 part of that community involvement includes the
23 regulatory agencies. Therefore, if this is a

1 matter of grave concern to you, I can assure you
2 that our board will consider it. Having said
3 that, I should add that our board would be much
4 more favorably inclined to agree to such a
5 provision if it were imposed on all licensees in
6 Indiana.

7 CHAIRMAN KLINEMAN: It's not the job of
8 this Commission to impose non-competition
9 agreements. All I need to know is yes or no, and
10 I guess I got a no but maybe.

11 MR. KELL HOUSSELS: That's correct.

12 CHAIRMAN KLINEMAN: You would recommend
13 to the board, if it was a matter of consider-
14 ation, you would recommend to the board that they
15 not enter into a non-competition agreement?

16 MR. KELL HOUSSELS: That's correct,
17 unless it was clear that you were not going to
18 issue a license unless we agreed to that
19 provision.

20 CHAIRMAN KLINEMAN: Let me just ask a
21 little follow-up on that. We have been talking
22 about the sailing away boats problem and
23 non-competition to me is tied in with that

1 problem. Would the board consider some kind of a
2 very substantial payment should you decide to
3 discontinue your operation -- payment to the City
4 of East Chicago?

5 MR. KELL HOUSSELS: Mr. Chairman, this
6 is not something that we've considered or run any
7 kind of analysis on. Certainly it's not in the
8 company's best interest to agree to such a
9 provision unilaterally. It would be something
10 that again if it was required to be in this
11 market, then we'd have to very seriously consider
12 it. That would be it, but certainly to just
13 offer that, that would not be something that
14 would be in the company's best interest.

15 CHAIRMAN KLINEMAN: That would not be the
16 thing that I would like. I would rather have a
17 non-comp agreement in some fashion for some
18 period of time. We're not talking about until
19 the end of time, not talking about the total east
20 of the Mississippi or fifty states or anything
21 like that. We're talking about a true non-comp
22 limited in time and area.

23 MR. KELL HOUSSELS: What I think I can

1 address is your underlying concern of us moving
2 out of this area which I think is driving this,
3 if I'm correct. The reason we decided to come to
4 East Chicago is because we believed it meets our
5 objectives and it meets our long-term objectives.
6 We think this is going to be an excellent project
7 and we wouldn't be involved in it if we didn't
8 think it was going to be an excellent project.
9 We know that we're not perfect in terms of
10 predicting the future and that things can arise
11 that may cause this project not to be a good
12 project, but we don't see the set of
13 circumstances right now that would cause that to
14 occur. That's why we're here. If those
15 circumstances did occur, then of course it would
16 be -- we have a fiduciary obligation as a
17 publically traded company to act on our
18 shareholders' best interest and we'd have to do
19 that, but we're here because we believe in this
20 project. Again, I'd like to reiterate the strong
21 demographics and the opportunity to create a
22 company-community relationship that I've never
23 seen possible before. I think we can really set

1 a model here in East Chicago.

2 CHAIRMAN KLINEMAN: All variations too.
3 I just said limited time, limited space, limited
4 number, not more than ten within 50 miles of you
5 or whatever. There are all sorts. You obviously
6 anticipated I was going to ask the questions
7 because you thought about it and you had an
8 answer. I guess I would like for you to think
9 some more. We don't impose anything on anyone.

10 MR. KELL HOUSSELS: Chairman Klineman, I
11 can assure you it will be taken up by our board
12 at the next board meeting. Is that -- are you
13 looking for something more than that?

14 COMMISSIONER MILCAREK: Did you state
15 that the market potential is a lot greater than
16 it is in that area and that four boats will quit
17 growing from a much larger market especially if
18 Chicago would come on line? Is that what you're
19 saying?

20 MR. KELL HOUSSELS: The reason we're here
21 is we think the supply demand characteristics are
22 very very positive from demand a standpoint. In
23 other words, there's an undersupply even when the

1 Chicago riverboats come on line. I think in our
2 projections we had five Chicago riverboats coming
3 on line in 1999 and we still showed a very good
4 profit for the company at that point in time.

5 COMMISSIONER MILCAREK: Without some
6 type of non-compete agreement what would prevent
7 you from sailing twenty miles away with the boat?

8 MR. KELL HOUSSELS: I think there is --
9 again, there's a very strong relationship being
10 built now between Showboat and the East Chicago
11 area. I think again we have an opportunity to
12 create what I think is a real model relationship
13 in terms of city-community -- company-community
14 relationships and I think once you've established
15 yourself in a particular area you build up a lot
16 of momentum. There's a lot of positives in terms
17 of being there, being located in one particular
18 area, just from a business side. From an
19 integrity side, it's not our nature to do that.
20 We have done that once in the past, as you know,
21 in New Orleans, but that was a very unusual
22 circumstance, not very unlike the situation that
23 we see here in Indiana.

1 CHAIRMAN KLINEMAN: From the public
2 newspaper type comment I would agree with your
3 statement that you have a unique relationship.
4 The applicant and the city have the unique
5 relationship.

6 MR. KELL HOUSSELS: Thank you.

7 CHAIRMAN KLINEMAN: Just based upon what
8 I read in the newspaper.

9 COMMISSIONER VOWELS: About the boat
10 itself physically. Reading through the materials
11 that we have that were based upon your
12 application and what was provided to the staff,
13 there's a reference that the boat was originally
14 supposed to be 460 feet long and now it seems at
15 the presentation that it's 380 feet long. Is
16 that correct, that originally you thought it
17 would be that big?

18 MR. TOM BONNER: That's correct,
19 Commissioner.

20 COMMISSIONER VOWELS: And then based upon
21 what I've heard and what I'm reading, it doesn't
22 seem that the passenger size has changed. 4,250
23 people which includes passengers and a crew and

1 employees of 500. Is that correct also?

2 MR. TOM BONNER: That is correct.

3 COMMISSIONER VOWELS: I'm not sure if
4 that means there was a lot of room on a boat 460
5 long or there's there's not much room on a boat
6 380 foot long. Why the difference? What was the
7 change?

8 MR. TOM BONNER: What essentially
9 happened, Commissioner, the original concept
10 included a vessel that was longer but had only
11 two gaming decks. We decided to move to a three
12 gaming deck vessel more in line with the other
13 gaming vessels that are currently operating, so
14 the vessel got shorter but taller. That's why
15 you see on a shorter vessel the same number of
16 gaming positions. With respect to how spacious
17 the vessel is, how much room there is within the
18 gaming layout, our calculations are it's about 22
19 square feet per gaming position, which is in
20 line, if not a little bit more spacious than the
21 existing vessels that are operating in the
22 northern Illinois area and are planned for the
23 lake in Indiana.

1 COMMISSIONER VOWELS: As far as -- how
2 many slots are going to be on there?

3 MR. TOM BONNER: 1,872, I believe,
4 Commissioner.

5 COMMISSIONER VOWELS: How many tables?

6 MR. TOM BONNER: Eighty, I believe.

7 COMMISSIONER VOWELS: There was -- from
8 the information that we had, it looks like you at
9 least had some design by some architects in
10 Seattle; is that correct?

11 MR. TOM BONNER: Yes, Gito Parala [sic.]
12 & Associates is the naval architect for the
13 project.

14 COMMISSIONER VOWELS: Are they still the
15 architects?

16 MR. TOM BONNER: Yes, they are.

17 COMMISSIONER VOWELS: Again, what was the
18 reason for the change in the design from 460?

19 MR. TOM BONNER: As I indicated, the
20 vessel got shorter. It also got narrower in
21 large part as a result of discussions as the Army
22 Corps of Engineers and IDNR with respect to
23 maneuverability within the breakwater. It also

1 provided an opportunity to expand the possible
2 building sites for the vessel. They are the
3 motivations behind a change in the size of the
4 vessel.

5 COMMISSIONER VOWELS: Where are you going
6 to have it built?

7 MR. TOM BONNER: We're not sure where
8 it's going to be built yet, Commissioner. We are
9 evaluating opportunities to build the boat in
10 Indiana on the lake as well as at other shipyards
11 outside the state of Indiana.

12 COMMISSIONER VOWELS: The original boat
13 was 120 feet across. What's this one? What's
14 the new one going to be?

15 MR. TOM BONNER: 76 feet wide.

16 COMMISSIONER VOWELS: It seems to me
17 that the price of the boat stayed about the same,
18 around \$40 million. Is that right?

19 MR. TOM BONNER: That's correct,
20 Commissioner. We held the budget at the same
21 number.

22 COMMISSIONER VOWELS: There are
23 conflicting numbers about what the total project

1 would be. It seems that originally it may have
2 been anticipated to be \$131 million and then I
3 hear \$156 million which includes the \$16 million
4 for the city so you're \$140 million plus \$16
5 million. In the materials here I see that
6 discussions with some Showboat officers -- and
7 this is from the blue book. The estimated
8 project cost as of mid-August are now approxi-
9 mately \$170 million. Is that an accurate
10 statement?

11 MR. TOM BONNER: That's correct,
12 Commissioner. Three basic components make up
13 that \$170. The \$140 million to which you
14 referred, the \$16 million in fixed cost
15 contributions and we have added to that \$156
16 million a \$14 million contingency to bring it up
17 to \$170 million. Our financing package will
18 assume \$170 million project to ensure that we
19 have ample funds in the event that our budget
20 estimates are not met for the project.

21 COMMISSIONER VOWELS: The \$14 million
22 contingency is just to give you some breathing
23 room?

1 MR. TOM BONNER: That's exactly right. We
2 think it's prudent just to have some extra funds
3 available for the project in the event that
4 budgets are exceeded.

5 COMMISSIONER VOWELS: Because what I'm
6 looking at here shows that total funds available
7 exceed that \$170 million figure by another \$10
8 million. I can go down through this.

9 MR. TOM BONNER: Depending what you're
10 looking at, Commissioner, there's equipment lease
11 financing that is part of the component, and
12 whether that's \$15 million or \$25 million could
13 affect the numbers that you're looking at, but we
14 are using \$170 million as our project cost with
15 the financing package that provides \$170 million.

16 COMMISSIONER VOWELS: I see leases on
17 gaming equipment \$10,500,000. Is that an
18 accurate figure?

19 MR. TOM BONNER: That figure has been
20 adjusted to \$15 million at this time.

21 COMMISSIONER VOWELS: In reference to
22 your marketing budget, I note here that SPEA is
23 figured at 3.2 percent of your total revenues.

1 When you look at everybody and taken into
2 consideration the three other companies in
3 Hammond that have applied, it appears that their
4 numbers, the average comes to 4.2 percent. Can
5 you explain to me why and then the correlary of
6 that is your annual average numbers are 30
7 percent higher than any of the Hammond
8 applicants. It seems -- my question is looking
9 at the figures here, you're spending less than on
10 your marketing budget but you're having a higher
11 average of admissions on your boat. Can you
12 explain to me why that would be that way?

13 MR. TOM BONNER: Commissioner, with
14 respect to the marketing expenses -- and we don't
15 have the report which you're reviewing, but we
16 projected \$30 million in marketing expenses in
17 our first year of operations. That's about
18 twelve percent of our projected gross revenue.
19 Those marketing expenses include your typical
20 marketing and advertizing functions, compliment-
21 aries that are given to guests and complimentary
22 admissions. That makes up the \$30 million which
23 is about twelve percent of the projected gross

1 revenue.

2 COMMISSIONER BOCHNOWSKI: But minus the
3 complimentaries because that's been deducted from
4 everybody's.

5 MR. TOM BONNER: Minus the -- I don't
6 have those numbers in front of me, Commissioner.
7 We could get them, but it was my understanding
8 from a review of the other applicants that our
9 marketing expenses were in line with what others
10 had been presenting. I believe that when taking
11 out the contributions it's about six percent of
12 gross revenue. I'm not sure that our compliment-
13 ary expense line item is.

14 COMMISSIONER VOWELS: There's a frequent
15 player program and a direct mail that you use in
16 other jurisdictions. Do you intend to use that
17 in East Chicago?

18 MR. TOM BONNER: Yes, part of the
19 marketing effort will include direct mail
20 marketing and data base marketing which we've
21 used very effectively in Atlantic City.

22 COMMISSIONER VOWELS: My notations here
23 that it may be the favorable answer to my last

1 question about marketing. Based upon that, I see
2 that those programs have allowed you to reduce
3 your marketing expense from 28.6 percent in 1988
4 to 17 percent in 1992. Would you attribute that
5 to those player programs and the direct mail?

6 MR. TOM BONNER: I'll let Mr. Miller give
7 you some of the details concerning that.

8 COMMISSIONER VOWELS: And I guess the
9 question would be did you take that into
10 consideration in the amount of your marketing
11 budget and percentage of your total revenues?

12 MR. TOM BONNER: Mr. Miller can provide
13 the details.

14 MR. MARK MILLER: The short answer to
15 your question is, yes, we did take that into
16 consideration. If I could just make a couple of
17 opening remarks about some of the comparisons
18 that you may be making. Without having seen the
19 report that you're looking at but having a fair
20 amount of experience in terms of trying to
21 compare marketing expenses among properties, that
22 it's a very difficult thing to do because -- and
23 to just back out the complimentaries is in my

1 estimation a very simplistic approach to
2 evaluating a company's overall marketing effort
3 because complimentaries are such a significant
4 portion of the marketing expenditure in our
5 business. In fact, in many cases complimentaries
6 far outweigh the typical types of marketing
7 expenses that you would see, television
8 advertizing, radio advertizing, billboards, those
9 types of things, in terms of total dollar
10 commitment are much less significant in our
11 business than, for instance, complimentary
12 admissions, complimentary food, coin programs to
13 which you allude.

14 It might be helpful if I just gave you a
15 brief outline of what Showboat's marketing
16 approach is and how we view this and how we tie
17 it all together. We break marketing down into in
18 terms of how do we want to market a property, how
19 do we want to position a property into four basic
20 strategic elements. The very first and most
21 important is that we focus on creating a high
22 quality, fun, exciting gaming experience or
23 gaming adventure. Some focus groups that we do

1 people talk about a adventure, a safe adventure.
2 There are several elements of that which are very
3 important. Some of them are somewhat hygenic,
4 but you have to pay attention to them. The
5 issues of safety, cleanliness. I talked earlier
6 about variety of the gaming product is very
7 important, access to the gaming product during
8 peak periods. Both the variety and the access
9 issues are very important to us and they are keys
10 to why we're building a larger boat. Comfort is
11 an important part of the experience, friendly and
12 knowledgeable employees. We make a very heavy
13 investment in training our employees and in
14 creating an environment where our employees are
15 having fun and are able to create a fun
16 experience. Themed environments. We're big on
17 themed environments. Not all gamers are or build
18 themed environments. High value, this I think is
19 a lot where the complimentaries come in in terms
20 of rebating and reducing the cost of some of the
21 amenities and services that are provided. We do
22 all this under an umbrella of customer satis-
23 faction survey and a lot of market research.

1 Having created this fun, exciting
2 environment we then focus on creating an aware-
3 ness among our customers, our target customers
4 the environment that we have created, and we use
5 typical marketing tools to do that, television,
6 radio, billboards, those kinds of things, focus-
7 ing on the key elements of our environment which
8 we think will be appealing to our customer. Then
9 we work on what Commissioner Vowels asked about
10 in terms of reward and loyalty programs where we
11 try to identify those customers who demonstrate a
12 propensity to use our product, they're attracted
13 by our product and who are highly profitable to
14 us. We use state-of-the-art player tracking
15 systems to identify those players. We use
16 programs like the -- we use a variety of proven
17 data based marketing programs which we have used
18 in Atlantic City, Las Vegas and we're rolling out
19 in Sidney at this time which take into account
20 coin programs and those kinds of things.

21 I think the final element is really is
22 to have an eye towards improving our product at
23 all times. We do a lot of customer satisfaction

1 research. We do a lot of market research. We
2 have heavy capital budgets. We're always looking
3 for opportunities to make our product more
4 attractive to and align better with the expect-
5 ations of our customers. I think that getting
6 back to your comment about Atlantic City and the
7 reduction in coin expenses and what we would call
8 hard dollar marketing costs, I think what we've
9 seen in Atlantic City is we have been over the
10 last few years we've been able to do a better job
11 at creating this attractive environment. We've
12 spent a lot of money on our Atlantic City
13 property over the last five years. We have
14 created what we believe to be a very special
15 culture, highly attractive culture and we've
16 gotten better at analyzing the profitability of
17 customers which has also helped us to target our
18 marketing expenses more directly, and as we are
19 able to take what we've learned in Atlantic City
20 standing Las Vegas and bring it here, we believe
21 that we'll be able to be highly efficient as an
22 operator, not only in terms of the dollar amount
23 that we spend, but the effectiveness in creating

1 this attractive environment. It's a long-winded
2 answer, but I hope that I covered what you were
3 looking for.

4 COMMISSIONER VOWELS: That does address
5 that. Thank you. On a completely other matter.
6 About the Corps permit, the original plan that
7 was submitted in June of '94 which was rejected
8 in June of '95 and then there was one that was
9 the response plan was September 26th of '95.
10 Have you heard anything from what the Corps,
11 what's the status of that?

12 MR. TOM BONNER: We have. It's very
13 good news. I'll let Mr. Taylor share it with
14 you.

15 MR. RUSS TAYLOR: As of 9:50 a.m.
16 yesterday morning I talked to Gary Minesto [sic.]
17 who's the chief regulatory officer for the Corps
18 in Detroit. He indicated they're issuing a
19 permit for the plans as drawn with the exclusion
20 of the piers, piers within the new breakwater
21 element there. As a result of those piers being
22 removed, the Corps is modifying the plans to
23 indicate a minus 17 depth of dredging throughout

1 the whole basin where we had a plateau where
2 those piers were. The rationale behind the pier
3 removal was driven by the Coast Guard. In our
4 conversation with the Coast Guard their
5 unfamiliarity with the marketplace, the activity
6 of this basin, the potential to have boats come
7 and visit on a transient nature and the traffic
8 nuisance for those slips they felt that with the
9 gaming boat and the ferry operation was enough to
10 fit inside that space in this time and they asked
11 for the piers to be dropped from the permit
12 request and the Corps is facilitating that
13 request, but every indication is that by the end
14 of next week we'll have a final permit.

15 COMMISSIONER VOWELS: Another completely
16 different matter. Facilities in Randolph,
17 Missouri and Lemay, Missouri, is that one in the
18 same or two?

19 MR. TOM BONNER: Two different locations.

20 COMMISSIONER VOWELS: What is the status
21 of the riverboat in Lemay, Missouri? Is that
22 operating now?

23 MR. TOM BONNER: It is not. The Lemay

1 facility is in preliminary development phases.
2 The Randolph project is currently inactive.

3 COMMISSIONER VOWELS: Inactive? Why is
4 it inactive?

5 MR. TOM BONNER: The state decided not to
6 consider that project for a license for a
7 foreseeable future number of years so the decision
8 was made with the partners to just make the
9 project inactive.

10 COMMISSIONER VOWELS: The situation in
11 Missouri -- and I've talked about that it seems
12 in every hearing -- is different than what we
13 have here. You go ahead and build and then hope
14 to get a license later?

15 MR. TOM BONNER: My understanding there
16 is a different licensing process in Missouri, as
17 I understand it, whereby specific dates are not
18 necessarily assigned for the hearing of a
19 license, nor is there a specific number, as I
20 understand it. There are others here on behalf
21 of Showboat who understand it better, but they
22 have what's called a que process and they decide
23 from time to time who they will put into the

1 licensing que and in what order they will
2 consider these licenses. That is the significant
3 difference between this process and theirs.

4 COMMISSIONER VOWELS: I guess when you
5 first hear that it's inactive that would be a lot
6 different than if it was an inactive licensing in
7 the State of Indiana versus what you see in
8 Missouri; is that correct?

9 MR. MARK MILLER: It is different. As a
10 company I think we have to make a decision when
11 we're willing to invest and really say we're
12 going to do the project and we go, build the
13 boat, build the buildings and do those kinds of
14 things. In Indiana we've made the decision that
15 that's upon the issuance of the certificate of
16 suitability and the Army Corps of Engineers
17 permit and that's based on the process that's in
18 place here. In Missouri we've made the decision
19 that we will go with the project for the most
20 part when we are admitted into the licensing que.
21 They do extensive investigation work before they
22 let you into the que, and in their process
23 getting into the que, as they call it, is a much

1 better indication that you are ultimately going
2 to be awarded a license, assuming you can meet
3 all of their requirements.

4 What happened in Randolph was that we
5 didn't get into the que and it doesn't appear
6 that we will be considered for licensure for some
7 extended period of time so that partnership is
8 now in the process of being wound down. The boat
9 is for sale. We had partners there who had
10 already committed themselves to building the
11 boat. So there is a boat and that boat is
12 being -- is on the market to be sold. We are
13 pursuing a license in Lemay County which is in
14 St. Louis. We have not yet been accepted into
15 the license que. We expect a decision on whether
16 we will be in the license que in the very near
17 future. I think that's pretty much the status of
18 those two projects.

19 COMMISSIONER VOWELS: If you get a
20 Missouri operation and if it needs to be propped
21 up financially, will you use any of this East
22 Chicago profit to do that?

23 MR. MARK MILLER: No, we currently

1 already have designated financial resources from
2 our existing cash to handle our equity investment
3 in East Chicago and we have done the same for the
4 Lemay project in St. Louis.

5 COMMISSIONER VOWELS: In Australia, in
6 Sidney you have an operation?

7 MR. MARK MILLER: Yes.

8 COMMISSIONER VOWELS: What percentage
9 does Showboat own?

10 MR. MARK MILLER: Showboat owns roughly
11 26 percent of the Sidney operation. In addition,
12 we have a management contract which is held by a
13 management company of which we own 85 percent.
14 So we own 85 percent of the management contract
15 and we own 26 percent of the total entity.

16 COMMISSIONER VOWELS: The other
17 percentage is owned by --

18 MR. MARK MILLER: In terms of the total
19 company, it's a publically traded company on the
20 Sidney Exchange. It's held primarily by
21 financial institutions and Australians. In terms
22 of the management contract, the other 15 percent
23 is held by latent contractors in trust.

1 COMMISSIONER VOWELS: How are the
2 operations? Profitable?

3 MR. MARK MILLER: Yes, we've been
4 open -- what is today? Two months, we've been
5 open two months and the facility is doing very
6 well. We had an excellent opening. It went very
7 smooth and we're very excited about it. The
8 permanent building is under construction,
9 expected to be open in early 1998 probably, and
10 it's on schedule and doing very well.

11 COMMISSIONER VOWELS: Just kind of
12 jumping around here because been laying dormant
13 and trying to get it all out. As far as
14 admission fees on the boat here in East Chicago,
15 what would you charge in East Chicago?

16 MR. MARK MILLER: Our proforma shows no
17 admission revenue at all. For proforma purposes
18 we have anticipated that we would comp most, if
19 not all admission fees. Now, whether that
20 actually happens or not, we don't know, but
21 that's what we're currently anticipating.

22 COMMISSIONER VOWELS: I don't have any
23 other questions right now.

1 CHAIRMAN KLINEMAN: Do any of the
2 commissioners have anything?

3 COMMISSIONER MILCAREK: Getting back to
4 the size of the original boat versus the one now.
5 It says here that the old boat would hold up to
6 3,750 maximum gaming patrons per cruise. What
7 will the new boat hold?

8 MR. MARK MILLER: I believe it's the
9 same. The facilities are basically in terms of
10 total size are roughly equivalent. It's just how
11 it's configured.

12 COMMISSIONER MILCAREK: How many slots
13 did you say?

14 MR. MARK MILLER: It's a little more
15 than 1,800. Somewhere 1,870 something, I
16 believe.

17 COMMISSIONER MILCARKE: Gaming tables
18 seventy?

19 MR. MARK MILLER: It's around 80, I
20 believe. Should be close to 2,500 total gaming
21 positions.

22 MR. THAR: I apologize. I missed a part
23 of the presentation, but Showboat Marina Partner-

1 ship in East Chicago I missed a substantial
2 portion of question and answer this morning. As
3 a consequence I'm not sure what has been asked
4 and answered. I don't want to be redundant.

5 MR. MARK MILLER: Everything's been
6 asked.

7 MR. THAR: In that case I wouldn't
8 require a view.

9 CHAIRMAN KLINEMAN: Now we're waiting
10 for the answers.

11 MR. TOM BONNER: How did I end up at the
12 podium for this part?

13 MR. THAR: The only thing I guess would
14 see is the Commission comfortable with the
15 answers to the questions that have occurred with
16 regard to the process involved in the city grant?
17 Are there any other questions you want ask with
18 regard to that process?

19 CHAIRMAN KLINEMAN: Well, to summarize, I
20 think they say that they went on an open process.

21 MR. TOM BONNER: I certainly can speak
22 from Showboat's perspective with respect to that
23 process, but we would agree, Mr. Chairman -- and

1 Mr. Fife is available to answer any additional
2 questions you may have concerning that process.

3 MR. THAR: I would ask one or two quick
4 questions just with regard to the vessel. It's
5 my understanding the sole reason for the change
6 in the design size of the vessel was because of
7 your original plan at the marina the Corps of
8 Engineers would not approve a breakwater would be
9 large enough for that boat to maneuver safely so
10 as a result the disapproval of the addition to
11 the marina you scaled down your boat to scale
12 down the size of the basin area?

13 MR. TOM BONNER: That was the primary
14 consideration, Mr. Thar, that's correct.

15 MR. THAR: Will you just the answer the
16 question on the Corps permit? That's the only
17 two things I see.

18 CHAIRMAN KLINEMAN: If you ask about the
19 process.

20 MR. THAR: If the Commission is
21 comfortable I don't see an reason. I know a lot
22 of that questioning occurred when I was wasn't
23 here and there's no reason to go through it just

1 for the sake of asking questions.

2 CHAIRMAN KLINEMAN: Also I think some did
3 occur before we adjourned in East Chicago last
4 month.

5 COMMISSIONER BOCHNOWSKI: I just have one
6 other question. Mr. Bonner, you're going to be
7 leaving. Has somebody been named to take your
8 place? You've had such a relationship with the
9 City of East Chicago and the Waterfront people.
10 How is this affecting the project?

11 MR. TOM BONNER: One of the very positive
12 things is the depth of the Showboat organization
13 and it's not dependent upon any one individual.
14 I'd like Mr. Miller to provide more information
15 about that for you, Commissioner.

16 MR. MARK MILLER: To answer your
17 question briefly. In terms of a transition plan,
18 I am acting as the CEO for the East Chicago
19 project. We will, as quickly as we are finished
20 here and we've had Thanksgiving dinner, we will
21 reconvene and start talking about who the
22 replacement CEO will be. We would hope to name a
23 replacement CEO probably sometime in the middle

1 of December and have them available to start
2 working on the project early in 19 -- January or
3 February, I would suspect, but until then I will
4 be handling Tom's responsibilities.

5 COMMISSIONER VOWELS: You're going to be
6 with Mr. Barden?

7 MR. TOM BONNER: That's correct.

8 COMMISSIONER VOWELS: What capacity?

9 MR. TOM BONNER: I believe responsibilty
10 for development of his gaming opportunities
11 focusing initial on Gary and in other
12 jurisdictions that he seeks to pursue.

13 CHAIRMAN KLINEMAN: Good luck to you in
14 your (inaudible). I presume we'll be seeing more
15 of you.

16 MR. TOM BONNER: We'll be seeing alot of
17 each other, Chairman, I'm sure. Thank you. I
18 appreciate the good wishes.

19 CHAIRMAN KLINEMAN: What we intend now to
20 do -- thank you. What we intend now to do is we
21 intend to take the public comments on Wednesday
22 at nine a.m. in the Intergenerational Center.
23 Those people who had previously indicated a

1 desire to state some public comments are being
2 invited to come back. The vice-chairman will be
3 there to help conduct the ceremony -- or the
4 questioning or receiving testimony. It will also
5 be videotaped and those videotapes will be
6 duplicated and will be made available to each one
7 of the commissioners. After we've reviewed that
8 and considered everything else that we received,
9 it is anticipated that we will consider the
10 licensing for East Chicago during the week of
11 January 8, 1996. Anything sooner I think would
12 put pressure on the Commission, since we do have
13 a lot of material to review and it will take us
14 that long to go through all of them. That would
15 probably be the schedule. Exact time and place
16 and exact date will probably be set depending
17 upon the scheduling.

18 MR. THAR: Yes. I would just add one
19 thing with regard to the public comment. Janine,
20 are we making an effort to contact each
21 individual?

22 JANINE HOOLEY: Letters went out
23 yesterday.

1 MR. THAR: And giving them a time to
2 appear at the Intergenerational Center. The
3 people that were scheduled are being re-contacted
4 so they can make statements should they choose.

5 CHAIRMAN KLINEMAN: We have received, by
6 the way, quite a few written statements from the
7 people involved or interested in the East Chicago
8 process and those have been made part of the
9 record already. With that, I guess we'll take a
10 break maybe until quarter after three and we'll
11 be a little late going into Hammond.

12 (A short break was taken at this time.)

13 CHAIRMAN KLINEMAN: If we can come back
14 to order, please. We're here now, of course, to
15 consider the licensing of -- issuance of the
16 certificate of suitability for the Hammond
17 applicants, and there are three applicants.
18 Mr. Thar, do you, based upon the investigation
19 and testimony that we received, have any
20 information as to the qualification of any one of
21 the three or disqualification of any one of the
22 three applicants in Hammond?

23 MR. THAR: The result of the

1 investigation would indicate that none of the
2 applicants have any disqualifying factors, so all
3 of them would therefore be eligible for licenses
4 as of today.

5 CHAIRMAN KLINEMAN: We are again down to
6 the place that the State so amply pays us to make
7 decisions, and like many other instances, this is
8 a very hard time for us because we certainly have
9 three extremely well-qualified candidates. None
10 of them lack financial wear-with-all. None of
11 them certainly lack experience. All of them have
12 the highest integrity. And so we really get down
13 to choosing one of the best because all of them
14 are the best. I guess I would see if anyone
15 would like to start the discussions.

16 COMMISSIONER BOCHNOWSKI: This will be a
17 very brief question, and we got the information
18 from Bally, but I would just want to know from
19 the other two applicants what your plans are once
20 you buy that migrant bird trap. Who is going to
21 get it and what is the ultimate goal of that
22 location -- of that area? I do not want
23 personally want as a Lake County resident want to

1 see anything developed on that land.

2 MR. ALEX MOORING: Alex Mooring with
3 Boyd Gaming. It's our intent to purchase the
4 property from NIPSCO and donate it to the city,
5 and their plans are to split it up, eight acres
6 into a migrant bird trap and additional eight
7 acres for a public beach and park.

8 MIKE HANSON: Commissioner Bochnowski,
9 Mike Hanson, Lake Michigan Charters. The
10 property will be purchased by the city through a
11 contribution from Lake Michigan Charters. We
12 will insist on a covenant in that purchase in the
13 deed that it remain as is as a bird trap, the
14 entire 16 acres untouched.

15 COMMISSIONER SUNDWICK: I have a question
16 of Lake Michigan Charters. You had provided us
17 with additional information showing a hotel
18 property close to -- I forget the street. Is it
19 Chicago Boulevard? Somebody help me out here.

20 MR. KEVIN LARSON: Indianapolis
21 Boulevard.

22 COMMISSIONER SUNDWICK: Indianapolis
23 Boulevard. How long has the option been on that

1 property?

2 MR. KEVIN LARSON: Kevin Larson, Lake
3 Michigan Charters. Phil Bate.

4 MR. PHIL BATE: Phil Bate. We have a
5 contract to purchase that property and we have an
6 indefinite period of time extending into next
7 year in order to close on that property.

8 COMMISSIONER SUNDWICK: What was the date
9 of the option?

10 MR. PHIL BATE: We contracted to purchase
11 that property about six to eight weeks ago and we
12 had a period of time for due diligence. We've
13 undertaken and completed the environmental due
14 diligence and that's fine and acceptable. We
15 have a period of time to do title due diligence.
16 We're not completed with title due diligence, and
17 there are a series of 30-day periods that are yet
18 running to try to clear up title issues with
19 respect to the property.

20 COMMISSIONER SUNDWICK: That was prior to
21 the hearing in Hammond?

22 MR. PHIL BATE: Yes, it was prior to the
23 hearing in Hammond.

1 COMMISSIONER SUNDWICK: Thank you.

2 COMMISSIONER BOCHNOWSKI: I would ask
3 Boyd also you had indicated that you were
4 negotiating for property for a hotel. Have you
5 made any final arrangements on that?

6 MR. ALEX MOORING: Alex Mooring with
7 Boyd Gaming. No, we've not reached any final
8 arrangements with any of the property owners
9 we've been dealing with. One particular piece of
10 ground that we were dealing with has subsequently
11 sold. It was an NIPSCO piece of property that we
12 had talked to them about. There was an offer
13 outstanding and we had back-up situation and it
14 ultimately closed with someone else. We still
15 have two additional parcels that we're working
16 on.

17 CHAIRMAN KLINEMAN: Bally people. Do
18 you have any comments on any of these questions
19 or any additional information?

20 MR. JAY BOYD: Mr. Chairman, Jay Boyd
21 representing Bally Entertainment Corporation. We
22 have a clear commitment to provide the outline in
23 the letter Commissioner Bochnowski referred to to

1 put the bird trap property into a charitable
2 foundation, and there is, as I'm told, a
3 foundation charter ready for that. With respect
4 to the hotel property and other properties,
5 obviously we made our presentation to put the
6 hotel in what we believed to be clearly the right
7 location on the lakefront. However, we do have
8 other property that would potential be available
9 to us in Lake County subject to the same kinds of
10 due diligence and other final closure items that
11 Mr. Bate referred to earlier on a piece of
12 property that is somewhat near that same area.

13 CHAIRMAN KLINEMAN: Okay, thank you.
14 Any other questions? We, of course, are faced
15 with the problem that we've been faced with in
16 other places where from the time that the papers
17 are filed and amended and then they are filed in
18 some instances changed and then at the
19 presentation it's changed and now we even have a
20 situation where we probably have had it before,
21 but I guess there have been changes since we had
22 the hearings in Hammond and in some instances the
23 projects are somewhat different than they were

1 even when they were presented orally to us. This
2 makes our job very hard. We've spoken of this
3 before. We really are going to hopefully get to
4 the place where people will stop doing that to us
5 because I think what we really have to do is go
6 back to where we were when we originally
7 considered your projects and then as a result
8 just try to -- in some ways not formally but try
9 to sort of ignore additional things because we
10 haven't had a chance to really check them all
11 out, but having said that, I also would indicate
12 that if you in your business judgment think some
13 of the things you have now put in your projects
14 and so forth are good, we'd like to see them.
15 There are a lot of good things that I've seen
16 come across my desk in regards to things that
17 have been proposed, and so we'll try to handle it
18 in that fashion.

19 I guess to start off with and having
20 said that and as we indicated when we were up in
21 Hammond, I personally have some problem with the
22 quote, "footprint," that maybe the City of
23 Hammond having sort of indicated that that is the

1 area and the only area that really is available
2 for this development, that maybe you wouldn't be
3 getting the maximum amount of bang out of the
4 placement of a boat in your community. I under-
5 stand why you did it, but I guess I would feel
6 that there was another way to handle it, but I
7 also have a problem in the sense that it's going
8 to be in your community and it's not going to be
9 in mine and you people are going to have to live
10 with it and I will move on to some other place,
11 so I have to give some credence to the concept
12 that has been developed.

13 That brings me to the -- what I'll call
14 the Bally proposal which is very exciting. It's
15 a very exciting proposal, but it is something
16 that utilizes a lot more of the property than the
17 city wishes to have utilized, and the project of
18 course -- and I understand why it came in late.
19 It came in late because Bally's thought that the
20 overpass would be completed and in existence and
21 that therefore the project had been sort of put
22 into the footprint, that you had to conform to
23 the footprint, but the overpass having not gotten

1 that far down the road, Bally then felt that they
2 could come with this substantially different
3 project. But we have had no time really to
4 analyze or to evaluate the Bally's proposal
5 and -- or at least the IUPUI people didn't have
6 any time to evaluate and analyze the new Bally
7 proposal, which puts us in a place where we have
8 basically analysis of the Boyd and the Charters
9 projects, but we don't have anything -- and we
10 have no way of verifying all the things that
11 Bally is telling us, not that we know of anything
12 they've told us isn't true, but we just haven't
13 had the independent look that the investigative
14 staff of this Commission and IUPUI provides for
15 this Commission. It's an important aspect of our
16 decision-making process because we want to have
17 this independent verification that provides us
18 with a great deal of comfort. Anybody else have
19 anything to say?

20 COMMISSIONER BOCHNOWSKI: Yeah, I kind
21 of -- I've been struggling with this one because
22 as a resident of Lake County I take the lake very
23 personally. I don't live on the lake, but I feel

1 like it's a state-wide and county-wide treasure
2 so I really do feel very uncomfortable with a
3 parking structure facing the lake. I just -- I
4 think we put a lot of bad things on the lakefront
5 and it troubles me to put another thing that has
6 no esthetic value on the lake and that people
7 can't really use as a public structure other than
8 to park their cars in. So I've been very
9 troubled by this footprint. On the other hand,
10 this is where my struggle has come in because I
11 do -- I like the way the Bally proposal looks.
12 It has the component of having a very respected
13 construction company that is a Hammond-based
14 company. That just is all very positive. On the
15 other hand, the City of Hammond has indicated
16 what they want, and that isn't what they want, so
17 this has been my struggle as well.

18 CHAIRMAN KLINEMAN: Anyone else?

19 COMMISSIONER ROSS: I think if you speak
20 about the Bally proposal, when I saw the three
21 proposals that were made at our last meeting, the
22 Bally proposal seemed to me the only one with any
23 imagination or anything to present it. As far as

1 as a hotel being there, we always felt that it
2 should be there. The idea of building a boat in
3 Indiana certainly appealed to me. However, I
4 think it came at such a late date that nobody
5 knows whether the boat can be built or not or
6 whether it's economically feasible. So I think
7 that's part of the process of what we're going
8 through here. Is that if you don't read your
9 morning mail you don't really know what's going
10 on because the Empress, the Charters to me at the
11 time of the first presentation had a very poor
12 presentation as far as having no minorities or no
13 females in any of the people that stood up, and
14 they seemed to have no program, but in the mail a
15 few days ago and now they have -- they hired a
16 couple of minority companies and they have
17 females and it's a different project altogether.
18 So what I have is three competent successful
19 casino operators and each would do a good job. I
20 think Charters would be in the water faster. As
21 I recall, they showed us a picture of a boat that
22 they already have. That gives them a little bit
23 of an edge on the other two. However, nobody can

1 get the boat in the water until they get a
2 roadway to come down there. So that sort of
3 makes everybody come together so we're back again
4 at a little impass with three good companies with
5 three good proposals.

6 CHAIRMAN KLINEMAN: Well, I guess I'll
7 then talk a little bit about the City of
8 Milwaukee. I can't remember the name --

9 MR. THAR: Milwaukee Clipper.

10 CHAIRMAN KLINEMAN: Couldn't remember the
11 name of it. I think that personally it may be on
12 the historic register, but I'm not too sure it
13 belongs in the Hammond marina. If it's to be
14 preserved I think it should be preserved maybe
15 closer to its original home. I don't know how
16 you could move it, but I think it would -- and
17 that may fly in the face of what the city has
18 thought about for a long time, but at least
19 personally I think the project would be a lot
20 better without the Milwaukee Clipper. Towards
21 that end and particularly picking up on what
22 vice-chairlady said up in Hammond which is \$5
23 million to renew the Milwaukee Clipper could

1 better be spent on education in the City of
2 Hammond or in whatever would enrich the citizens
3 of the City of Hammond. \$5 million is not
4 chopped liver. It's a lot of money, and it could
5 enrich a lot of people in the City of Hammond if
6 that didn't have to be spent on refurbishing the
7 Milwaukee Clipper, even though it does serve as a
8 base for some things, including the port
9 authority, the diving school and some of these
10 other things, I guess, that occupies some of the
11 space, but I think they could be provided for
12 someplace else at a lot less cost.

13 COMMISSIONER SUNDWICK: I think one of
14 the key issues I don't want to overlook is the
15 fact that I think we've had three excellent
16 proposals, but the City of Hammond certainly has
17 stood behind their preferred vendor, if you will,
18 throughout, and as I look at all three proposals
19 and consider the City of Hammond and the market-
20 ing area of Chicago and East Chicago, it appears
21 to me that Lake Michigan Charters probably has a
22 real opportunity to be very successful in that
23 particular market and they understand the market.

1 I happen to agree a little bit with the Doctor
2 that some of the things that they talked about
3 they probably should have brought forth in their
4 original proposals. I have no reason to
5 understand why -- as a matter of fact, the reason
6 I asked the question about when did they get the
7 option -- take the option on the land was they
8 just didn't do that at our request looking for
9 hotel space, which is a trigger for me. That
10 certainly wouldn't have been -- would have been
11 after the fact and I probably couldn't support
12 Lake Michigan Charters, but since that's the case
13 I probably could and I respect the city and
14 promote Lake Michigan Charters and support them.

15 CHAIRMAN KLINEMAN: I guess I need to say
16 since they're all good candidates, the Boyd
17 Gaming people who we've all seen down in
18 Lawrenceburg, they are very much a class
19 operation and to me they would do a fine job
20 wherever they ended up. I guess some of the
21 people think maybe that they devoted too much
22 effort to Lawrenceburg and didn't devote maybe as
23 much effort up here in Hammond, but they are an

1 applicant and they do have a good project and
2 they are a successful operator and I think that
3 we need to give them serious consideration.

4 COMMISSIONER BOCHNOWSKI: True, and
5 there's something to be said for competition too
6 where -- I'm trying to say this in a positive
7 way.

8 CHAIRMAN KLINEMAN: Empress had a
9 successful operation not too far away. How about
10 that?

11 COMMISSIONER BOCHNOWSKI: Okay. Exactly.

12 CHAIRMAN KLINEMAN: It was interesting
13 the non-compete covenants came down to obviously
14 Empress can't agree not to have their successful
15 operation but they agree not to have another one,
16 and that was where Boyd ended up coming out.
17 They'll only have one more.

18 COMMISSIONER BOCHNOWSKI: That's troubled
19 me.

20 COMMISSIONER SUNDWICK: I think it's
21 only troublesome if in fact you can't see the
22 synergism of multiple casinos in the same
23 operations. There's no reason for them to rob

1 Peter to pay Paul. In fact, the same markets.
2 They're successful in one market. They will
3 absolutely probably be successful in the other.
4 I could not (inaudible) a nice issue, but the
5 reality is that the people at Showboat said we'll
6 have to go back to our own companies and look at
7 this. So I think --

8 CHAIRMAN KLINEMAN: Obviously there can
9 be -- I just don't want that our licensee become
10 the adopted something or other, becomes like a
11 stepchild to some other -- somebody else's
12 operation. There's ways of taking operations and
13 making them successful. That isn't to say that
14 these people who have competing operations don't
15 have what you indicated that their marketing can
16 be doubled without doubling the cost and their
17 effect on the market can be doubled without -- as
18 much as somebody who is coming in new to the
19 market. I agree with that as a concept.

20 COMMISSIONER BOCHNOWSKI: You know, I
21 guess -- this is a very difficult process that we
22 have sitting here trying to talk openly and
23 frankly with a lot of people watching us, and so

1 I guess I'm just going to jump in here. I almost
2 feel like -- and I know we can't do this, but I'm
3 going to say it. I wish we could tell Hammond to
4 go back to the drawing board. I really do.
5 Because I just feel like Boyd went along what the
6 city said they wanted. I don't think we're
7 getting the very best proposal. I just feel like
8 it's very difficult. You said that too, Alan.
9 So again, I'm torn. Do we give Hammond what it
10 wants or do we -- do I in my heart give the State
11 of Indiana what I think looks to be the best,
12 even though it came in late. So that's difficult
13 for me.

14 MR. THAR: Maybe that's a point the
15 Commission ought to focus on in the following
16 regard. Hammond did two things. Let's put the
17 one aside. Hammond endorsed Lake Michigan
18 Charters.

19 COMMISSIONER BOCHNOWSKI: We have to
20 because it came before our decision.

21 MR. THAR: But Hammond has made a
22 presentation in which they have represented to
23 the Commission with supporting documents that

1 their recommendation as to the development of the
2 waterfront is based upon what the citizens of
3 Hammond want on a majority basis. So maybe the
4 Commission ought to determine first before it
5 goes any further as to whether or not they're
6 going to accept that recommendation. If you're
7 going to accept Hammond's position that they
8 would like to control the development of their
9 waterfront in the following manner, then there
10 are proposals that fit that and there are
11 proposals that don't. But I think that issue
12 needs to be confronted.

13 COMMISSIONER BOCHNOWSKI: It's an issue
14 we never faced before because no other community
15 has dictated to this degree what the development
16 should look like.

17 MR. THAR: That's not really true. Gary
18 in essence told the developers you will develop
19 it at the site we select. That's why they all
20 applied for Buffington Harbor.

21 COMMISSIONER BOCHNOWSKI: But that was
22 kind of a process that evolved.

23 MR. THAR: The Little Cal site with

1 regard to Gary had been attempted to be explored
2 by some other people well before that issue came
3 before the Commission. Gary wouldn't support it.
4 In Evansville, in Lawrenceburg the city dictated
5 we want it in each place, we support this
6 candidate for this location. In Lawrenceburg to
7 the extent that this Commission publically
8 commented that for Lawrenceburg to take such a
9 negative approach towards people that put forth a
10 project in a site that was not theirs was very
11 unprofessional of them. So I guess I would view
12 Hammond's recommendations quite differently than
13 what you're articulating. While as a commission
14 we may say this is maybe not the best way to
15 promote a gaming project, because the Commission
16 has seen a lot of hotels with it at a location,
17 the flipside is that Hammond is saying from an
18 economic development perspective for our
19 community that the limited amount of shore and
20 marina space that we have we don't want to
21 clutter it completely with gaming. We want it to
22 have multiple use. We would like to see instead
23 of infrastructure or a hotel being built at the

1 get-go, that the money be infused into the city
2 to be disbursed in others areas. That's not a
3 bad plan, but it's one that the Commission has to
4 be comfortable with.

5 COMMISSIONER BOCHNOWSKI: But the
6 footprint is one thing, but saying that a parking
7 structure has to be inserted, that's difficult.

8 COMMISSIONER SUNDWICK: You might look at
9 this a little bit differently and look at it in
10 the fact that by creating the specific footprint
11 it makes our job easier because we don't look at
12 twenty-five different proposals. We look at
13 proposals that are almost identical. I don't
14 happen to agree with it necessarily with the
15 footprint, but I'm not here to second-guess the
16 City of Hammond and how they want their water-
17 front. So it makes it a little easier. If
18 you've asked all the developers did they do it
19 their way, they said maybe not, but if the city
20 wants it and that's what they have to all fall
21 within, it makes the proposal somewhat easier for
22 us. It's identical proposals.

23 CHAIRMAN KLINEMAN: And I don't think

1 that the footprint was subject to a referendum
2 and vote in the election a week and a half ago,
3 but having come from a community where the
4 community rose up in arms because we were going
5 to build a \$90 million addition to our high
6 school and they basically wiped out everybody who
7 was in public office, I feel that had the foot-
8 print been a really objectionable thing to the
9 City of Hammond, to the people in Hammond, that
10 there would have been a campaign on that basis
11 and that the results might have been somewhat
12 different. As I say, I don't believe it was a
13 referendum, but on the other hand, I don't think
14 it became such a matter of concern to the
15 citizens of Hammond that they did in fact want to
16 throw everyone out who was associated with it. I
17 don't know if it's the will of the citizens of
18 Hammond to have a footprint or not. All I know
19 is that they express their will by not over-
20 ruling what their city officials have previously
21 done.

22 COMMISSIONER VOWELS: I think part of
23 what's confusing here for me is this is kind of

1 the opposite where the city is not squeezing the
2 applicant for every last drop of blood they can
3 possibly get. They didn't demand a hotel. They
4 didn't this and they didn't demand that, and for
5 us -- or at least for me it's kind of --

6 CHAIRMAN KLINEMAN: Refreshing.

7 COMMISSIONER VOWELS: Well, it's
8 different. I wondered -- the resolution that we
9 talked about, I think, shows the process and the
10 footprint -- I don't know. I mean it's kind of
11 like do I sit on a state commission and dictate
12 to a local community what's good for them. I
13 don't know. It's almost a philosophical do we
14 sit in the ivory tower and say "Hammond, this is
15 what you're going to get. Whether you like it or
16 not, shut up."

17 MR. THAR: If you don't mind me
18 interjecting in this.

19 CHAIRMAN KLINEMAN: No, you participate,
20 please.

21 MR. THAR: If you take Table TS41. It's
22 in the analysis of the summary for East Chicago
23 and Hammond. Just simply look. What Hammond

1 wanted in some simple terms is we want you to pay
2 us a lot of money in lease so that we can
3 re-distribute that throughout the city. We want
4 moneys from the port authority. They want the
5 cash to re-distribute rather than the hotel at
6 the get-go. One might view Hammond's approach to
7 this as being on the conservative side. They're
8 not solely convinced that gaming will be there
9 forever, but if it's there for five years, they
10 want to make sure that they got all the cash out
11 of that they could to develop other aspects of
12 their city as opposed to hotels or other types of
13 developments. That's how I understand their
14 approach. No one can agree or disagree with the
15 approach, but I don't think that it's too
16 accurate to say that they're not getting as much
17 as out of the applicants as they could. They're
18 just taking it in cash rather than gaming
19 development.

20 COMMISSIONER SWAN: I can say, too, that
21 I think it was abundantly clear to me that the
22 people of Robertsdale didn't want anything but
23 that sort of footprint, that they were not

1 interested in having their lakefrontage messed
2 with, so I thought that message came across loud
3 and clear in the oral presentation that we got
4 and written material that we received, and
5 further, I, like the rest of the Commission, I
6 don't feel we have any responsibility to tell the
7 City of Hammond or the people of Robertsdale that
8 they ought to do something different with their
9 lake than what they want. I think we're
10 obligated to listen to those wishes.

11 COMMISSIONER MILCAREK: I feel somewhat
12 like that. I would liken it to a contractor
13 building a home for someone. That may not be the
14 type of home the contractor would build for
15 himself, but that homeowner knows what he wants.

16 COMMISSIONER SUNDWICK: I think what we
17 ought to probably do is to make some motions
18 here. If it's an appropriate time, I would make
19 a motion and Jack can probably more eloquently
20 put it than I can, a motion to the city's
21 preferred vendor, Lake Michigan Charters, for the
22 certificate of suitability.

23 COMMISSIONER MILCAREK: I'll second that

1 motion.

2 COMMISSIONER VOWELS: As far as
3 discussion, the term preferred vendor doesn't
4 sit well with me. I mean a resolution is a
5 resolution.

6 CHAIRMAN KLINEMAN: The resolution has
7 been made and seconded.

8 COMMISSIONER SUNDWICK: Take preferred
9 vendor out. I apologize. I agree with him.

10 CHAIRMAN KLINEMAN: But now we're going
11 to have some more discussion. People wish to
12 discuss it further.

13 COMMISSIONER BOCHNOWSKI: That's right.
14 That needs to be reiterated. This decision
15 cannot be made based on the city's recommend --
16 or the city's endorsement.

17 MR. THAR: If this Commission chooses to
18 apply no weight to the city's endorsement of an
19 applicant, it may do so. That applicant,
20 however, remains as viable as any other
21 applicant.

22 COMMISSIONER BOCHNOWSKI: Oh, absolutely.
23 I just want to make it clear that if Empress gets

1 it, it is not because of the city's endorsement.

2 COMMISSIONER SUNDWICK: I agree with
3 that.

4 COMMISSIONER SWAN: Probably on the other
5 side it would be inspite of it frankly is my way
6 of looking at it because I think -- I was a
7 little miffed with the process, and that's as
8 many negative words as I will say the rest of the
9 day. I would like to say some positive words
10 here, and those are that Lake Michigan Charters
11 has become a good corporate citizen. They've
12 partnered well with this community. They have
13 responded to our concerns through their
14 proposals. And one part of that was even
15 providing financial assistance to the City of
16 Whiting for the police and fire protection. They
17 have, in my view, met what I would require as the
18 need to be the proper vendor in this case.

19 COMMISSIONER BOCHNOWSKI: I was impressed
20 also with the supplemental information that they
21 sent. Is there any way we can hold them to that
22 supplemental information that they've sent
23 because they addressed a lot of concerns that we

1 had brought up.

2 COMMISSIONER SUNDWICK: I agree with
3 supplemental. I would hope that what they sent
4 is clarification of what they've done, not just
5 in fact supplemental.

6 COMMISSIONER BOCHNOWSKI: However you
7 want to term it. I want this to be part of -- I
8 mean I'm not -- that would make a difference.

9 MR. THAR: If I've got a feeling where
10 the Commission is going on this issue, the
11 approach would be this. There have been present-
12 ations put forth and analyzed by -- in the books
13 that have been presented to the Commission. To
14 the extent an applicant has clarified a point of
15 that, we'll hold them to it. To the extent an
16 applicant has attempted to add to it after it's
17 been done, that would not be part of the
18 consideration and we'll have to determine in the
19 certificate of suitability to what extent
20 something is a clarification as opposed to a
21 complete modification or change, and if it's a
22 modification or change, the Commission may desire
23 to hear from them in the future, but the projects

1 that are being voted on should be the projects
2 that were presented and there was an opportunity
3 to confirm that the representations are do-able
4 and viable.

5 COMMISSIONER BOCHNOWSKI: Would giving
6 Whiting money to help with police and fire
7 protection be a clarification or a modification?

8 MR. THAR: I'm sorry. At this point I
9 would not be able to give you an answer to that.
10 I'd have to take a look at it closer.

11 CHAIRMAN KLINEMAN: I think we seem to
12 be -- we're sort of going down the road of trying
13 to confine the development to a footprint, and as
14 between Charters and Boyd, I really kind of like
15 what Boyd is proposing maybe a little bit better
16 than what Charters has, even though Charters has
17 been a good corporate citizen. They've certainly
18 done everything that the city asked of them above
19 and beyond the call of duty in many respects.
20 But I think Boyd could likewise be a good citizen
21 of the City of Hammond.

22 COMMISSIONER BOCHNOWSKI: Boyd did come
23 out very high.

1 CHAIRMAN KLINEMAN: They operate in a
2 lot of areas and seem to get along very well in a
3 lot of jurisdictions. It just sort of appeals to
4 me.

5 COMMISSIONER VOWELS: On that front too,
6 the SPEA summary indicated anticipated employees
7 and the notes I have show that Charters at 773
8 people and Boyd at 1,234, Bally at 1,013. So
9 talking almost 450 more employees with Boyd than
10 Charters and, of course, back there people having
11 jobs is always great. That's from the SPEA
12 summary.

13 COMMISSIONER ROSS: Again, I'm like Ann.
14 The things that were added into the project since
15 the last meeting puts Boyd -- puts Charter as
16 kind of on the top as far as I'm concerned.
17 Basically sort of like to go along with the city
18 because they live there and I don't, and in this
19 case after looking through the way that the city
20 had reacted throughout the whole process, I
21 wasn't sure it was the city. I had the feeling
22 it was the mayor and Robertsdale because
23 Robertsdale was the only thing I had heard

1 mentioned. In spite of that, after they have
2 cleared up all the things that they are going to
3 do, I think it's an excellent project.

4 COMMISSIONER SWAN: I'd like to mention
5 also. I'm not sure the effect on the number of
6 employees, how that's driven by revenues. The
7 average win on this proposal that we see on Boyd
8 was \$63. Lake Michigan was \$48. The national
9 average, according to whatever this is, "Casino
10 Executive", shows it at more last year about \$45,
11 at least in this table. I think that the number
12 in that range is probably more appropriate to
13 build a forecast on in my own view. I'm not sure
14 that's accurate. Further, I'm not sure how that
15 impacts the number of employees, but it would
16 seem that if you had a higher win number that you
17 probably going to have higher number of employees
18 to drive it, but I'm not sure that's accurate
19 either.

20 CHAIRMAN KLINEMAN: But if we have a
21 higher gross, we also have a higher tax base on
22 which the taxes are computed.

23 COMMISSIONER SWAN: This is true. My

1 point was actually, though, I'm not sure that's a
2 realistic win number in the first place to drive
3 that when the national average is more in the \$40
4 to \$50 range, I think.

5 CHAIRMAN KLINEMAN: I'm not going to
6 quarrel with a magazine, but I think those have
7 been tested by the IUPUI people and I didn't find
8 them to indicate that any of those numbers were
9 so out of line as to represent a distortion on
10 what they perceived to be the Chicago market.

11 MR. THAR: Those numbers are applicant
12 numbers. The overall approach is sometimes
13 tweaked by IU and Purdue for the purpose of
14 seeing whether or not they're adjusting --
15 whether or not they're starting with a gross
16 figure they want to get and then playing with
17 attendance and win to adjust to get to the gross
18 figure.

19 COMMISSIONER BOCHNOWSKI: Well, if you
20 look just even according to the information we
21 have, which of course now has changed with fixed
22 assets, Boyd is way on top.

23 CHAIRMAN KLINEMAN: When people get all

1 done discussing the question, see what happens.
2 Want to hear a call for a question? All those in
3 favor of the motion raise their right hand. Four
4 votes. That representing a majority of the
5 group, the certificate of authority will be
6 issued to Lake Michigan Charter.

7
8 (Whereupon, the proceedings were
9 concluded.)

1 STATE OF INDIANA)
2) SS:
3 COUNTY OF MARION)
4

5 I, Deanne S. Hutson, Stenographic
6 Reporter within and for the County of Marion,
7 State of Indiana, do hereby certify that on the
8 17th day of November, 1995, I reported the fore-
9 going Hearings; and that the transcript is a full,
10 true and correct transcript made from my steno-
11 graphic notes.
12

13 
14 -----

15 Deanne S. Hutson,
16 Residing in Marion County, Indiana
17

18 My Commission Expires:
19

20 November 6, 1998
21
22
23